Develop an effective pricing approach in tourism industry

Case: The Sophisticated Geek Company

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BACHELOR'S THESIS
November 2023

Bachelor's Degree Programme in International Business
ABSTRACT

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Develop an effective pricing approach in the tourism industry. Case: The Sophisticated Geek Company

Bachelor's thesis 47 pages, appendices 4 pages
November 2023

Pricing has been a key factor in the operation of the business across several disciplines. The recent developments in the field of tourism have led to a focus placed on the characteristics of the touristic offerings within the tourism pricing. While it is a growing field, publications on tourism pricing remain few. This study attempted to illustrate the pricing approach in tourism by integrating tourism characteristics with applicable pricing theories.

The objective of the thesis is to suggest an integrated pricing approach in the tourism industry. The thesis aims to evaluate the current pricing situation at the case company, which was The Sophisticated Geek, and propose suggestions to elaborate on the pricing approach of the company regarding the introduction of the new offerings. A qualitative approach was employed, integrating semi-structured interviews and content analysis, to collect and analyze data. Secondary data was gathered from reliable contemporary literature to generate a conceptual framework. Semi-structured interviews were conducted to gain insights into the pricing situation and proposed pricing approaches regarding the business situation.

Results suggest that The Sophisticated Geek acknowledged their pricing objectives and their pricing strategy towards the business direction. Many pricing factors have been taken into consideration by the company; however, no systematic pricing guidelines have been established. The suggested pricing approach for The Sophisticated Geek focuses on the commitment toward service quality and iterative process. The company is suggested to implement multiple pricing strategies while taking touristic characteristics into account to maximize the profit and gain a better customer experience.

Key words: pricing approach, strategic pricing, tourism industry
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1 INTRODUCTION

Pricing plays an important role in business growth with a direct impact on profitability and the company’s reputation. The company’s ability to set competitive prices while maintaining profitability with quality is a key driver for success. Companies need to be continuously updated with current and upcoming movements in the pricing practices of their segment to gain a competitive edge in the market. Additionally, it is worth noting that missteps in the pricing approach may result in detrimental ramifications that require a lengthy span of business effort to address the challenge (Ingenbleek & Van der Lans 2013). Therefore, pricing inevitably demands a considerable amount of time during the whole life cycle of the offerings.

Recent developments in the field of tourism have sparked a focus on industry-specific pricing aspects. Despite all odds from the economic downturn to the pandemic and global conflicts that seriously shifted the industry structure, tourism is set to recover and experience solid growth (Binggeli, Chen, Köpke & Yu 2023). The World Travel & Tourism Council (WTTC) provided an optimistic long-term forecast with a growth of an average of 5.8 percent a year in 2022 and 2023 while the economy’s predicted growth rate stands at 2.7 percent annually (WTTC 2023). Various types of tourism present opportunities for business ventures. Along with operation objectives and outstanding offerings, pricing is a core element of sustainable business growth. To date, pricing in tourism has received constant attention in the research of tourism economics both academically and socially (Zou, Liu & He 2018). A considerable amount of literature has been published on tourism-related separate pricing theoretical basis, ways of pricing investigation, pricing investigative findings, and pricing policy proposals (Zou et al. 2018). While pricing literature for tourism is a growing field, publications on the connection between the pricing approach and the nature of tourism industry elements towards the pricing process in the tourism industry remain few. Recognizing the demand for research in this area, the author has proposed the thesis centring on the pricing approach in tourism for the commissioning company.
The thesis study is commissioned by The Sophisticated Geek, a consulting SME (Small and medium-sized enterprise) with its location in Tallinn, Estonia. The company provides consultation services with a wide array of matters. Currently, The Sophisticated Geek has had an ancillary offering as the experimental combination of consulting and tour format. This hybrid tour has brought good additional income; however, it could not be expanded due to catering to the niche interest. The Sophisticated Geek has established a plan to launch a new ancillary hybrid tour that is intended to cater to a wider customer segment, namely both business and private customers, which has the potential to become one of the main offerings in alignment with the company's core speciality. The Sophisticated Geek opts to derive lessons from the aforementioned tour while advancing deeper knowledge to form a pricing approach for the upcoming launched tour. Understanding the importance of a proper pricing approach, the company kindly welcomed to be a thesis commissioner when the thesis proposal was given.

Regarding the nature of the tourism sector and the unpredictable future of the industry, it is essential for the company to gain a competitive advantage while still maximizing profits. By having a comprehensive understanding of how today's service is priced, the pricing elements in the marketing mix can be mastered. This thesis is carried out for the needs of the company to gain a comprehensive understanding of the pricing practices of the tourism industry and the possibility to propose improvements in their current pricing practice. A holistic approach is utilized, integrating semi-structured interviews, content analysis, and literature analysis to establish a strong ground for generating recommendations for the case company. Given that companies seldom disclose their strategies, it's challenging to research the pricing techniques employed by top-performing firms in the tourism industry. The thesis seeks to identify available pricing strategies and determine which are most effective for the commissioning company. It is worth noting that the result of the thesis is unable to encompass the entire tourism practices globally as the study is built based on the case company; therefore, the outcomes may not apply to all tourism offerings.
2 THESIS PLAN

2.1 Thesis objective, purpose, and research questions

The objective of the thesis is to develop a better understanding of the pricing approach in the tourism industry. It aims to assess the current pricing approach of the commissioning organization and then suggests suitable enhancements in the pricing approach of the company with an effective pricing approach.

The main research questions for the thesis can be formed as follows:
- What is the pricing approach in the tourism industry?

Some possible sub-questions can be generated as follows:
- What is the current pricing approach situation of the commissioner?
- What is an important pricing element in the pricing process of the tourism industry?

The thesis is designed to gain further knowledge on notable pricing concepts, sector-specific pricing determinants, and their integration to formulate a firm base for pricing framework. Furthermore, the current situation of the pricing approach in the commissioning company will be evaluated with semi-structured in alignment with the established conceptual framework, attempting to generate recommendations for The Sophisticated Geek company.

2.2 Concepts and Theory

The thesis is surrounded by the idea of describing the linkage of essential pricing principles and unique factors in tourism that influence pricing decisions in a pricing implementation for the tourism context. As a result, the key theories include price-setting practices, pricing strategy, pricing process, and tourism pricing determinants. The recommended concepts and theories are used with the purpose of enhancing the commissioning company’s pricing practices with a focus on practicality and an emphasis on tourism-specific factors.
To understand the logic of the thesis, the terms “price” and “pricing” as well as some related terms will be described as they recur throughout the thesis.

**Price**
Price is defined as the total worth of money or value that is used for exchange in return for possessing or using traded offerings (Kotler & Armstrong 2020). In other studies, price is referred to as an indicator of conversion rate representing monetary value or material worth at a distinct time and place, which requires customers to pay to receive benefits from products or services (Cakranegara, Kurniadi, Sampe, Pangemanan & Yusuf 2022). As the only revenue-generating element of the marketing mix besides product, promotion, and place (Kotler & Keller 2016), price is highlighted as a vital potential that not only aids business in sales increase, profitability, and market share advantage but also is the most variable element that can be flexibly modified to market changes (Išoraitė 2016). To generate profit and maintain customer turnover, the business should practice price with attentiveness as the price is perceived to convey two matters from customers’ perspective, which are the allocation role for customers to maximize their anticipated advantage or satisfaction with their buying capability and information role about the quality of offerings (Cakranegara et al. 2022).

**Pricing**
Pricing embodies a multitude of concepts which is focused on how the company decides prices for its offerings based on multiple factors such as cost, customers, and competitors… (Boztuğ 2015). In profitable business activities, a successful enterprise is invariably linked to pricing; therefore, pricing is viewed as a way to establish a foothold in a market. In the realm of pricing, it is widely recognized that corporate entities have five primary pricing objectives, which can be selectively pursued, or only with sub-objectives tailored to the company's specific circumstances. These principal goals encompass survival, profit maximization, market share maximization, market skimming increase, and product-quality excellence. (Cakranegara et al 2022)

**Price-setting practices**
Pricing-setting practice definition is derived from the study of Ingenbleek and van der Lans (2013), which specified one of the pricing practices. Price practices are
loosely defined as a series of activities that are undertaken by the firm’s management level with the aim of informing price decisions (Ingenbleek, Debruyne, Frambach & Verhallen 2003). Viewed as a part of the organizational process, pricing practice necessitates that managers handle available information from its gathering and dissemination to its interpretation and application, culminating in the determination of a price. The concept of price-setting practices is labelled to differentiate from other practices for the main focus on one of these key information listed as costs, which are variable, fixed, direct, and indirect costs, or customer’s perspectives on the offering’s value or competition in the pricing process. (Ingenbleek et al. 2013). It has been reported that numerous studies have classified price-setting approaches into three major categories: cost-based pricing, competition-based pricing, and value-based pricing (Guerreiro & Amaral 2018). One key characteristic of price-setting practices is that they occur inside the business, therefore, it is important to execute proper pricing practices in association with strategic choices as pricing strategies do not negatively affect the revenue (Ingenbleek et al. 2013).

**Pricing strategy**

Widely varying definitions of pricing strategy and its application have been proposed over the years; however, it is broadly referred to as the way businesses achieve their pricing objectives (Ingenbleek and Van der Lans 2013, citing Noble and Gruca 1999; Tellis 1986). In contrast with pricing practices, pricing strategies are noticeable outside the boundaries of the organization, therefore, they play an important role in maintaining the stronghold of the company in the market (Ingenbleek et al. 2003).

### 2.3 Working methods and data

To date, various method has been developed and introduced to develop an approach to a specific topic. The thesis bases its approach on a qualitative way by collecting data through semi-structured interviews, which ensures the process is individual in nature. In the data analysis process, the qualitative case study approach is utilized as it is suitable for the context of the study. The methodological approach taken in this qualitative study is content analysis.
Qualitative methodology

Qualitative research is a proven-well-known-long-time scientific research methodology that is set to generate answers to a matter or question by producing findings by connecting various insights and systematically assembling evidence (Dubey & Kothari 2022). Chandra and Hareendran (2018) noted that qualitative research is utilized in cases where there is a need to understand the deeper meaning and the importance of the revealable variables. Regarding the objective of the thesis is to provide an appropriate integrated pricing approach by applying various reliable theories and concepts while considering perspectives and expectations of the commissioning company with the new offering’s strategy and the general company development way, a qualitative approach is employed in data collection and data analysis phases of the thesis.

The rationale for utilizing the qualitative approach is anchored in its adaptability to varying circumstances and its ability to capture profound insights into the tendencies, perspectives, value orientations, and other social dimensions with authentic sentiment, unbounded by a set of predefined responses. (Dubey & Kothari 2022.). Therefore, in this case study, qualitative research can be utilized to gather reasons influencing decision-making tendencies in pricing practices, explore the current pricing approach, and evaluate the prospective development pathway of The Sophisticated Geek. Considering the characteristics of this approach, it is believed that it would aid in capturing the picture of the pricing situation in different dimensions to achieve set objectives.

Semi-structured interview

The semi-structured interview is applied when it comes to studies that obtain data from specific matters relating to company, brand, strategy, and offerings (Dubey & Kothari 2022). Dubey and Kothari (2022) classified qualitative data collection methods into serval categories: individual depth or intensive interviews, focus groups, discussion, and projective techniques. In the context of the thesis, a detailed analysis of the commissioning company is essential to determine the practical application of the pricing theoretical framework in real-life scenarios. Considering the limited scope of subjects and online information, this thesis opted for the semi-structured approach within the individual in-depth interview category
to support the thesis’s objective. This choice was made from a range that includes nondirective or unstructured interviews, semi-structured or focused interviews, and standardized open-ended interviews Dubey and Kothari (2022).

In semi-structured interview, the flow of conversation and the topics based on predetermined criteria is controlled by the interviewers to optimize information gathering. While this method ensures flexibility to acquire unexpected but relevant answers, it remains central to themes crucial to the thesis. Therefore, a set of questions is predetermined while additional queries will be introduced based on responses. (Dubey & Kothari 2022.)

Considering the thesis’s nature and the inclinations of The Sophisticated Geek’s top executive, the interview was carried out as a face-to-face meeting in English. The dialogue encompasses various topics, with questions systematically aligned to themes central to the research. The questionnaire was developed according to semi-structured interview guidelines, listed in Appendix 1. Questions were crafted based on the theoretical framework of tourism pricing, as well as company-specific factors like expectations, driving forces, and pricing viewpoints. The interview template was sent to the interviewee and supervisor beforehand by email to ensure the transparency and agreement of disclosed information as well as the ability of the questionnaire to produce a broad spectrum of responses. With mutual agreement, the interview was recorded and later translated into English for analysis.

**Content analysis**

Content analysis was adopted to analyse empirical data as it is an effective way of providing insights for final suggestions and conclusions. In content analysis, written words and images are assessed objectively and thoroughly so that deeper layers of meaning can be reached (Bengtsson 2016). Therefore, it is useful when dealing with interpretations of responses which are extensive in volume and length. As a result, it is critical that the data is categorized based on themes and topics after a thorough examination. (Dubey & Kothari 2022.)

Given the purpose of the thesis as proposing a recommendation on pricing approach based on the company’s need, the content analysis offers a means of
rounded, detailed assessment of written information from the semi-structured interview. The empirical data was coded to differentiate patterns and themes that are relatable to the current pricing approach, perspective, and vision regarding the company’s direction in pricing.

2.4 Thesis process

The thesis process was outlined based on the review of related topics of the thesis as well as their time demand and applicable working methods used in each stage of the thesis journey. Table 1 showcases distinguished stages, timelines, and associated methods in each stage of the thesis.

TABLE 1. Thesis process

<table>
<thead>
<tr>
<th>Period of time</th>
<th>Tasks</th>
<th>Research methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2023</td>
<td>Decide thesis topic&lt;br&gt;Draft outline of the thesis&lt;br&gt;Read relevant literatures</td>
<td></td>
</tr>
<tr>
<td>June 2023</td>
<td>Present poster idea&lt;br&gt;Complete thesis plan&lt;br&gt;Sign a contract with the commissioner&lt;br&gt;Read and gather relevant literature</td>
<td>Literature analysis</td>
</tr>
<tr>
<td>July 2023 - August 2023</td>
<td>Write theoretical framework&lt;br&gt;Make interview template&lt;br&gt;Conduct interviews with the commissioner&lt;br&gt;Analysis the result</td>
<td>Literature analysis&lt;br&gt;Qualitative method</td>
</tr>
<tr>
<td>September 2023 - October 2023</td>
<td>Propose applicable framework and suggestions&lt;br&gt;Submit the preliminary thesis report&lt;br&gt;Enhance the thesis report with the supervisor&lt;br&gt;Finalize the thesis</td>
<td>Qualitative method</td>
</tr>
</tbody>
</table>
3 APPLICABLE PRICING ELEMENTS IN THE SERVICE SECTOR

3.1 Price-setting practices

3.1.1 Cost-based pricing

Cost-based pricing has long been the most dominant pricing practice due to its clear path to profitability, which is the core objective of all businesses (Nagle, Muller, & Gruyaert 2023). In this price-setting practice, the price is set with a visionary to generate an appropriate profit above all costs with the belief that costs are simpler to assess than the customer's demand and value of products (Boztuğ 2015). Traditionally, cost-based pricing is subscribed to the belief that the pricing process starts with designing offerings and estimating sales volume, followed by assessing costs such as variable and fixed costs as well as pricing objectives to determine a final price (Nagle et al. 2023). Regarding the financial side of the effect, the price of an offering is adjusted to be higher when there is an increase in sales volumes and cost base (Boztuğ 2015).

Along with the simplicity of cost-based pricing, of particular concern over this practice is its lack of considering the market reaction to pricing besides cost-related aspects as a base (Boztuğ 2015). As the starting focus is the offering’s cost, it may cause overpricing which results in reducing demand or underpricing which results in the failure of alignment with the offering’s value perception of customers (Christen, Hess, Grichnik & Wincent 2022). Therefore, to gain a competitive advantage, it is vital to closely oversee the cost base, which consists of variable costs and fixed costs. In the case of under-pricing in strong markets and over-pricing in weak markets, it's advisable to modify its sales price or risk earning less revenue (Kotler & Armstrong 2020).

A comprehensive literature review on cost-based price-setting practice built mainly on the study of Kotler and Armstrong (2020), Prastiti, Narsa and Narsa (2021) and Avlonitis and Indounas (2005) has revealed some common types of this approach for services, listed in table 2. Each type of practice has its unique characteristics that require the company to adopt based on current market trends, the company’s direction, and ability.
TABLE 2. Cost-based price-setting practices. (Adapted from Kotler and Armstrong 2020; Prastiti, Narsa & Narsa 2021; Avlonitis & Indounas 2005)

<table>
<thead>
<tr>
<th>Type</th>
<th>How the final price is determined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-plus pricing</td>
<td>Add a preferred profit margin per offering to the service’s produced cost</td>
</tr>
<tr>
<td>Markup Pricing</td>
<td>Add a desired return on sales percent over the cost per offering</td>
</tr>
<tr>
<td>Target Return Pricing</td>
<td>Add an expected rate of return on investment per offering to the cost per offering</td>
</tr>
<tr>
<td>Break-even pricing</td>
<td>The price is set where the total revenue is equal to the total cost at a certain sales volume</td>
</tr>
<tr>
<td>Contribution analysis</td>
<td>The price is determined based on variable cost, which is linked to break-even analysis</td>
</tr>
<tr>
<td>Marginal pricing</td>
<td>The price is determined to only account for marginal cost</td>
</tr>
</tbody>
</table>

3.1.2 Value-based pricing

Value-based pricing is regarded as a top-tier price-setting practice in many studies due to its reflection of customers’ value perception of offerings (Christen et al. 2022). Various value-based pricing methods have been outlined, drawing from the research of Avlonitis and Indounas (2005) and Kotler and Armstrong (2020), as depicted in table 3. In this practice, it's important to ensure that the perceived value to the customer doesn't surpass the company's costs to create a specific offering. When using value-based pricing practices, it is an essential task for a business to measure to which extent of price, customers are willing to pay for competitive offers to to understand their views on value for setting the final price. In contrast to cost-based pricing, the process of value-based pricing begins with assessing customers’ needs to design a valuable offering according to the perception of customers, then considering all costs and generating the final price that is reasonable for the value that the offerings bring to customers. (Kotler & Armstrong 2020.)

Although value-based pricing is often seen as the most optimal approach for setting prices, many businesses find it challenging to implement (Christen et al. 2022). In the context of innovative offerings, value-based pricing has several drawbacks as the value has not been sensed before so it is difficult to determine if the offering can bring equal benefit to the price being offered (Boztuğ 2015). Moreover, obstacles that businesses may face when applying this approach can
be derived from the constant development of the market regarding rising new features, competitors, and fluctuating price discrimination (Christen et al. 2022).

In the value-pricing approach, the business aims at widening the gap between the value delivered to the customer and the company’s costs to offer that value (Boztuğ 2015). It is necessary to take value quantification into consideration as it plays an important role in detecting the specific value of the offerings that customers want (Liozu 2017). Another key mechanism to consider is value communication, which addresses the issue of grasping the worth of the offering for customers (Hinterhuber 2008).

### TABLE 3. Cost-based price-setting practices. (Adapted from Kotler and Armstrong 2020; Avlonitis & Indounas 2005)

<table>
<thead>
<tr>
<th>Type</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value pricing</td>
<td>The price is set objectively low for a high-quality service</td>
</tr>
<tr>
<td>Perceived-value pricing</td>
<td>The price is set to fairly reflect the value perceived by customer</td>
</tr>
<tr>
<td>Value-added pricing</td>
<td>Add extra features to set higher prices than the value perceived by customer</td>
</tr>
</tbody>
</table>

#### 3.1.3 Competition-based pricing

Competition-based pricing is a price-setting practice that follows market conditions and prices of competitor’s offerings (Nagle et al. 2023). Going-rate pricing and Auction-type pricing is the most common practice of competition-based pricing according to the study by Kotler and Keller (2019) (see table 4). It shares the same advantage with cost-based pricing with its easy application, especially with offerings that are low in differentiation or among different market share segments (Sammut-Bonnici & Channon 2015). Therefore, a major advantage of competition-based pricing is its ability to reflect the prevailing market pricing trends. This method involves collecting data on competitor pricing for similar products and understanding expected behaviours. Thus, businesses using this strategy primarily aim to boost their market share. (De Toni, Milan, Saciloto & Larentis 2017.)
As competitors’ prices are used as benchmarks, a key issue within competition-based pricing is that demand for sales as well as detailed cost information of competitors are not taken into serious consideration (De Toni et al. 2017). When prices are set to be based on the market average, there's a potential risk of reduced profit margins. This is because the market price might not align with the specific customer segment of the business. (Christen et al. 2022). As a result, competition-based pricing should not be considered a long-term approach as the offering’s value can be adversely affected (Ingenbleek et al. 2013).

TABLE 4. Competition-based price-setting practices (Adapted from Kotler and Keller 2019)

<table>
<thead>
<tr>
<th>Type</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going-rate pricing</td>
<td>The price is set based on the major competitor’s price, which can be the same, below or above the average</td>
</tr>
<tr>
<td>Auction type pricing</td>
<td>A price is set based on the outcome of the auction. Three common types of auctions are classified as English auctions, Dutch auctions and Sealed-bid auctions.</td>
</tr>
</tbody>
</table>

3.2 Pricing strategy

Pricing strategies are categorized based on their primary theme in accordance with their application. Pricing strategies have been researched broadly in academic field alongside commerce as it is tightly associated with profitability. Therefore, numerous intense literature reviews and pricing frameworks have been published to follow the new movement in the market, however, there is a lack of pricing strategy research tailored to tourism-oriented applications. Therefore, a selected mix of pricing strategies that is applicable in the case of tourism builds on the pricing strategy literature review of Kienzler and Kowalkowski (2017) and the work of Albrecht, Green and Hoffman (2023). Additionally, numerous up-to-date articles in the reflection of each latest germane pricing strategy were used aiming at providing insights into each strategy.

3.2.1 Introductory Pricing Strategies

In the history of development economics, price skimming strategy is frequently used for introducing offerings. The company will introduce their new innovative
products at a high price so that, it forces customers to buy more products at the early stage with a high price. As a result, the return on the investment in the products will be easily paid back early. When a new competitor appears, the company will set the price down so that its products can maintain a good stand in the market. (Abid 2022.)

In contrast to the price skimming strategy, the penetration pricing strategy will set the price low to gain market shares at the beginning. Therefore, it will have a strong stand in the market as a competitive advantage to compete in the long run. (Abid 2022.)

Another common introductory pricing strategy is everyday low price. Although promotion and discount tactics are considered as a marketing strategy that can attract more customers at a certain time, company can choose to maintain a certain level of price in the whole product’s lifecycle. By this method, company can avoid the psychological part of the customer who wants to wait for a good deal to purchase instead of buying it when necessary. (Albrecht et al. 2023.)

3.2.2 Pricing strategies from case to case based on the customer’s perception of price

Psychological principles can be used to attract more customers in pricing practices. By implementing these principles, the company can improve its performance and potentially elevate the company's profits. This pricing strategy is widely defined as psychological pricing. As it deals with psychology, these principles are not straightforward; however, research has shown that they follow some patterns that can be listed as framing, congruency, context, and signalling. Based on the specific target of each company, these patterns can be used in the pricing models with the aim of following the customer’s intention to spend and the company’s overall strategy. (Larson 2014.). Larson (2014) analysed all the psychological patterns that companies frequently used in their pricing practices and listed them as listed in table 5.

TABLE 5. Psychological pricing (Larson 2014)
<table>
<thead>
<tr>
<th>PSYCHOLOGICAL PRINCIPLES FOR PRICING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Framing Principles</strong></td>
</tr>
<tr>
<td>Positive Focus</td>
</tr>
<tr>
<td>Free Product</td>
</tr>
<tr>
<td>Multiple Unit Pricing</td>
</tr>
<tr>
<td>Anchors</td>
</tr>
<tr>
<td>Quantity Limits</td>
</tr>
<tr>
<td>Scarcity</td>
</tr>
<tr>
<td>Price Salience</td>
</tr>
<tr>
<td>Spare Change Effect</td>
</tr>
<tr>
<td>Pennies-a-Day Pricing</td>
</tr>
<tr>
<td>Explicit Comparisons</td>
</tr>
<tr>
<td>Multidimensional Pricing</td>
</tr>
<tr>
<td>Trade-in Pricing</td>
</tr>
<tr>
<td>Emotional Pricing</td>
</tr>
<tr>
<td><strong>Congruency Principles</strong></td>
</tr>
<tr>
<td>Perceived Fairness</td>
</tr>
<tr>
<td>Typeface and Terms</td>
</tr>
<tr>
<td>Phonetic Symbolism</td>
</tr>
<tr>
<td>Package Design</td>
</tr>
<tr>
<td>Label Design</td>
</tr>
<tr>
<td>Package Dimensions</td>
</tr>
<tr>
<td><strong>Context Principles</strong></td>
</tr>
<tr>
<td>Price Expectations</td>
</tr>
<tr>
<td>Compromise Effect</td>
</tr>
<tr>
<td>Consistent Pricing</td>
</tr>
<tr>
<td>External Reference Price</td>
</tr>
<tr>
<td>Price Thresholds</td>
</tr>
<tr>
<td>Primacy and Recency</td>
</tr>
<tr>
<td>Pricing Strategy</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Price De-emphasis</td>
</tr>
<tr>
<td>Product Sequence</td>
</tr>
<tr>
<td>Price Sequence</td>
</tr>
<tr>
<td>Premium Surroundings</td>
</tr>
<tr>
<td>Category Perceptions</td>
</tr>
<tr>
<td>Assortment Variety</td>
</tr>
<tr>
<td>Discount Location</td>
</tr>
<tr>
<td>Full Bundle</td>
</tr>
<tr>
<td>Bundle Discounts</td>
</tr>
<tr>
<td>Decoy Pricing</td>
</tr>
<tr>
<td>Partitioned Pricing</td>
</tr>
<tr>
<td>Customized Products</td>
</tr>
<tr>
<td>Asymmetric Competition</td>
</tr>
<tr>
<td><strong>Signaling Principles</strong></td>
</tr>
<tr>
<td>Odd-Ending Prices</td>
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<td>Symmetric Prices</td>
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<td>Precise Pricing</td>
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<td>Unpredictable Pricing</td>
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<td>Tactical Price Increases</td>
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<td>Just Noticeable Pricing</td>
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<td>Reduced Recall Pricing</td>
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<td>Price Complexity</td>
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<td>Relative Pricing</td>
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<td>Prestige Pricing</td>
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<td>Price Placebo Effect</td>
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Another pricing strategy is leader pricing which lowers the price to catch the customer’s attention. As it is observed, low-price offerings will be highlighted in front of the promotional strategy. However, it should be practised with caution as if the strategy is done in the wrong direction, it will lead to a loss leader strategy direction, which is prohibited in many places. (Albrecht et al. 2023)

Price lining, which is also described as price levels, also utilizes psychology to make the offerings more appealing to customers. By listing offerings into ties with different price levels inside each tie, it can offer customers various choices with price points that they can choose based on their needs. It is noted that each selection should have a large quantity and quality gap. Otherwise, price levels would not be diverse to avoid confusion. (Albrecht et al. 2023.)

Demand backward pricing is another pricing strategy that focuses primarily on customer perception. In demand backward pricing, price levels and offerings’ features that customers are willing to pay are the main pricing determinant factors. An illustration of this strategy is the fashion industry where companies analyse what price levels are suitable for specific customer targeted groups and their preferred offerings to set prices and make offerings based on these price levels. (Albrecht et al. 2023.)

Captive pricing is used in case there is an event or occasion where customers have no other choice than choosing the offerings available at the time (Albrecht et al. 2023).

Two-part pricing is a strategy that is commonly used in service industry due to its customer-friendly manner. In two-part pricing, the price is divided into two portions, typically classifying into classic charge for all customers for the first part and additional charge based on each customer’s needs. (Albrecht et al. 2023.)

Payment pricing attracts more customers to pay for high-priced offerings by letting customers pay in instalments. By this means, the company will increase revenue and lead customers to buy high-priced categories. (Albrecht et al. 2023).
Algorithms pricing has been one of the most popular topics in recent years due to the use of technology in pricing. More recently, there has been increased use of algorithms pricing with artificial intelligence and machine learning to adjust the price constantly based on customer and competitor conditions, potentially boosting profit margins (Aparicio & Misra 2023). The main weakness of this pricing strategy is that frequently changing the price can have a negative impact on brand perception (Bertini & Koenigsberg 2021).

Dynamic pricing is a pricing strategy in that prices can change constantly based on the market condition. Dynamic pricing can be typically identified in sales promotions that offer temporary discounts, markdown pricing reduces prices for perishable or seasonal items, and personalized pricing sets prices based on individual buyer characteristics (Lee 2020). It is reported that this pricing strategy can have a positive or negative impact on customer perceptions regarding factors such as the industry, available supply and demand and perceived fairness of business (Neubert 2022).

It is essential to broaden knowledge of pricing practices to avoid using some strategies that can be unethical according to some regional laws. The first strategy with ethical concern is bait and switch strategy, in which offerings are advertised at a low price while, it is not available. The second strategy that should be noted is predatory pricing where the price is set extremely low, in some cases it can be below the cost, with the aim to dominate the market and later raise the price. Another questionable strategy is price fixing where companies agree to offer the same price for certain offerings, which can lead to higher prices for customers. (Albrecht et al. 2023.)

Organizations must also decide what their policies are when it comes to making price adjustments or changing the listed prices of their products (Albrecht et al. 2023). In price adjustment, company should take into consideration some price promotion and discount strategies with caution as they can be harmful to a business in the long run if it is not aligned with the company’s strategy. The common price adjustment strategy is artificial time constraints such as flash sales, or one-day-only deals. Another strategy is a reciprocal agreement, in which businesses collaborate to promote one another by offering discounts for partners
if using a service. Additionally, bounce back is a promotional strategy where customers are given discount cards or coupons for the purchase to increase the return rate of the business. (Albrecht et al. 2023.)

3.2.3 Participative pricing mechanisms

In contrast to the traditional pricing strategy in which the company determine price for offerings, an innovative pricing strategy is a pricing strategy in which customer join the pricing process. (Kim, Natter & Spann 2009). With the growth of technology and digital-oriented business, there are many new creative pricing strategies appeared to support online sales (Dudu & Agwu 2014). Participative pricing mechanisms are demonstrated to be an efficient mechanism for this setting (Dudu and Agwu 2014). Moreover, it is noted that customers will find offerings attractive as high as the customer’s power in pricing (Kim et al. 2014).

Consequently, participative pricing will not only increase sales revenues but also customer recognition of the company’s brand (Di Domenico, Premazzi & Cugini 2022). However, it is worth noting that as an innovative customer-oriented strategy, one offer can be paid at different price levels on each transaction based on their perception of the offerings’ value, reasonable prices and the risk of chance to buy lower-priced offerings (Krämer et al., 2017). Due to its difficulty to project, participative strategy has been eliminated in many companies’ pricing strategies while fixed prices are still dominant in today’s market (Di Domenico et al. 2022).

Pick Your Price (PYP) is considered to be the most innovative strategy, which is an advanced version of the Pay-What-You-Want approach. By applying this approach, company can control prices with a set of determined prices that customers are allowed to choose from (Ismael 2017). As a result, PYP can increase the purchasing intention while increasing the control of the company over prices (Di Domenico et al. 2022). Regarding optimal perceived controls and increasing sales revenue, PYP is the most beneficial approach in participative pricing mechanisms and traditional pricing strategies for both companies and customers. (Wang, Beck & Yuan 2021). It is frequently utilized in non-profit, charitable and gratuity settings. Otherwise, PYP is a comparatively new pricing
mechanism; therefore, research remains scant and many companies are unfamiliar with it. (Di Domenico et al. 2022.)

In the three most noticeable participative pricing mechanisms, Pay-What-You-Want (PWYW) is the strategy that allows customers to have the most control over the price where they can choose whatever price they want. At first, one or more offerings will be introduced to the buyers with a price that can be greater or equal to zero. After that, buyers will offer the price for their targeted offerings, which the sellers have to accept regardless of the seller’s expectations. As a result, when applying this mechanism, it is uncertain for the sellers to project sales and profitability. (Kim et al. 2009.) However, this is the most appealing approach that aids companies gain nearly market penetration completely. Therefore, by using this mechanism, companies can forcefully make competitors using fixed prices struggle to maintain in the market. Companies, which have low costs and many set competitive advantages in the market such as good reputation, media-wide coverage or other good promotional campaigns, will be more advantageous as the price is determined completely by customers. (Krämer et al. 2017.). Regarding the nature of PWYW, a major drawback of PWYW is that they do not support the company’s feasibility over a long period of time (Di Domenico et al. 2022). Due to the characteristics of PWYW, it is reported that the use of this mechanism is primarily in the service industry, exemplifying the hospitality industry, tourism industry and digital application (Di Domenico et al. 2022).

Name Your Own Price (NYOP) is the only participative mechanism that gives sellers the power to refuse the price given by buyers (Kim et al. 2009). In NYOP, sellers will list offerings with a threshold price that remains secretive to buyers. The deal is set when the price offered by buyers is higher than the threshold set by sellers (Krämer, Schmidt, Spann & Stich 2017). Therefore, NYOP has one advantage over PWYW is to prevent the situation where customers set the price too low, which can make the business able to cover the costs (Di Domenico et al. 2022). In comparison, NYOP is suitable for customers who can bear the risk of losing the offerings. Otherwise, NYOP is mostly welcomed when the fixed price of offerings is expensive. Regarding offerings that have high marginal costs, NYOP is an effective option for sellers to cover the cost with no other advantage. It should be taken into consideration that customers will opt for fixed-priced
offerings in case they have a likelihood of losing the bid of their preferred offerings from NYOP. (Krämer et al. 2017.)

Good-Better-Best Pricing (G-B-B) is built based on the practices of price bundling. In G-B-B, different price packages are offered to customers based on the amount of features. It's a way to cater to customers with different budgets or preferences. This can be illustrated briefly by the act of reducing the standard features of the company to have a more affordable offering in the bundle, which can attract customers who are attentive to price. Therefore, a key strength of G-B-B is the ability to target both big spenders and budget-aware consumers, which leads to revenue increase by exploring multiple avenues. With a long-term offering, G-B-B is also a good strategy to refresh the offerings while still keeping the core features. In a competitive environment, company can avoid using promotional tactics by introducing a lower-price range of the offerings, which in turn, helps the company deal with low-cost competitors. However, it should be taken into consideration that if new offerings in G-B-B are not priced carefully, it can be harmful to the profit of the existing lines as customers will opt for cheaper options of competitors. (Mohammed 2018.)

3.3 Pricing approach

Research on pricing processes and pricing applications has a long history. Several systematic reviews on the pricing process have been taken both generally and for some specific industries. However, there is a limited number of published studies on pricing processes in both academic and commercial aspects of the tourism industry. Therefore, a selected mix of pricing approaches that is applicable in the case of tourism builds on the pricing process of Kotler and Keller (2016) and the value cascade of Nagle, Müller and Gruyaert (2023).

According to Nagle et al. (2023), seller initiatives play a major role in the entire value cascade. These actions, which include value communication and buyer’s expectation alteration, can impact the demand factor (Nagle et al. 2023). It is since willingness to pay is shaped by purchasing context and perception (Lee 2020).
In the value cascade, there are six levels, which are listed as value creation, value communication, price structure, pricing policy, price competition gap and price level. It is crucial to note that pricing needs to be in a continuing process where different elements can be adjusted according to different situations. In the first level, value creation is considered as a base for the whole pyramid. The value of the offerings should be considered seriously with the aim that profitability should be generated based on customers’ needs and comprehensive knowledge of segments. The value creation level must not be based on the seller’s desire and the goal to maximize creativity to stand out in the market. The second level is value communication, in which a value message is considered so that it fits the customer’s perceptions and highlights significant offerings’ characteristics. A communication strategy builds on different dimensions such as economic and psychological value and the involvement level of customers in the buying process. The third level is price structure where the pricing menu is constructed strategically according to the value delivered and segment preference. Price fences and price metrics are applicable to reinforce the preciseness of segment division. The next level is pricing policy where rules and procedures are formed in which conditions and standards for price adjustments are classified for temporary durations or specific transactions. Otherwise, policies for price negotiation, price objections, different price tiers, market-leading strategies, financially unstable situations and promotion should be taken into consideration. The main aim is to make the pricing approach to be policy-based while maintaining flexibility in a controlled manner. The fifth level is the price competition gap with the main objective to optimize profitability in price competition. It is more challenging in case the company obtains a large market share. The final level is the price level, in which the price is set. The main goal is to have profitability in the long term. Price sensitivity factors, breakeven sales analysis, strategic objectives, and value estimation are considered in this stage before price is published. (Nagle et al. 2023.)

Kotler and Keller (2016) suggested a pricing process consisting of six stages as follows: select the price objective, determine demand, estimate costs, analyze competitors, select pricing method and select final price. The first step is selecting a pricing objective, which is considered the most important factor in determining price as it is to define market positioning. The second stage is determining
demand where price sensitivity demand curves, and price elasticity are assessed. The third stage is estimating costs, which are considered as all types of costs and quantities. In the next stage classified as analysing competitors, a comparison of competitors’ pricing approaches should be made to produce optimal prices and prepare pricing-altering policies to compete in many projected situations. The next step is selecting pricing method to implement the appropriate methods tailoring to the specific offerings while maintaining the overall strategy of the company. The final stage is selecting the final price, in which all non-core aspects are considered with company development direction and all scenarios’ evaluation to produce a price for an offering. (Kotler & Keller 2016.)
4 PRICING APPROACH IN TOURISM INDUSTRY

4.1 Tourism pricing

Besides pricing theory, it is essential to consider all influential factors that are tailored to the industry, especially the industry that is classified as the service industry. Service features and contextual situations should be taken into consideration carefully. (Kienzler & Kowalkowski 2017.). In the current market, tourism is one of the key industries that have the highest level of consumer service. The complexity of the tourism industry lies in its services where multiple elements are both interrelated and autonomous at the same time. (Atoevna, Kodirovna & Oktyamovna 2020.)

4.1.1 Pricing characteristics of tourism services

Due to the nature of tourism, pricing is considered more complex than in other service industries as price is set differently which makes customer hard for customers to estimate the monetary value of the offerings. Additionally, it is difficult for businesses to set prices as the price is mostly considered to reflect the quality of the service and its range; therefore, service price is determined by customer motives. In customer reference, the past payments will be the base for future purchases while marketed price is the determinant for the purchase. (Stangl, Prayag & Polster 2020.)

Pricing practices are extremely important for businesses to operate regularly in the service industry. As the pricing strategy is not properly executed, it will reduce the flow of customers both locally and globally. Furthermore, it should be noted that in popular tourist destinations, intermediaries have a high influence on the pricing process of tourism offerings. (Ammar 2016.)

It should be noted that in the tourism industry, tour operator accounts for over 50% of the market share. These operators strategically consider the actions of their competitors when determining their pricing strategies, which can be changed based on the economic environment. Therefore, market scenarios and competitive actions should be taken into consideration during the lifecycle of the
service as tourism is easily vulnerable to the market situation. A long-term pricing framework is necessary for the business to avoid unexpected events such as price wars, economic crises or natural disasters. (Alegre & Sard 2017.)

In tourism, the market segment is a vital element in establishing an effective pricing framework in tourism (Guo, Dong & Liang 2013). Pricing practices determine the success of business regarding profitability, and desired Return on Investment (ROI) rate. It also ensures a sustainable rate of customer retention, rather than just short-term revenue gains. Although pricing is commonly set based on competitors, it should be noted that efficient pricing is important for companies operating in tourism to be in a leading position in order to survive in this considerably highly competitive market. (Ammar 2016.)

4.1.2 Pricing consideration when making prices

An applicable pricing strategy in tourism should consider both pricing theories and tourism-oriented factors. Before employing new pricing practices, the company should consider the relevance, the cost, the company’s needs, technical feasibility, and how well the new pricing practices can be perceived in the management process. Additionally, regarding customer perception of the new pricing strategies, there should be an employee training program if the experience level of employees is not high enough. (Klein & Loebbecke 2003; Guo et al. 2013; Forbes et al. 2014 as cited in Ammar 2016.)

To mix and match the pricing practices with the company’s strategy, the pricing strategy should also be perceived as a competitive advantage. The interrelation of marketing mix components and pricing elements should be noticed. According to Kotler and Keller (2016), a marketing mix is a mixture of variable factors that can be controlled according to market conditions. It is optimal that the pricing approach and the ability of employees to implement are evaluated frequently to avoid troubles arising in the chain of touristic service for consumers. Therefore, the optimal approach is that the applicable pricing practices are adaptable and have a range of options for implementation in unforeseeable situations. Some factors that should be assessed regularly are the psychological part of tourists, the quality and domination of the services compared to the market and the global
trends. It is an undeniable fact that companies operating in tourism will encounter many difficulties when utilizing new pricing strategies; therefore, it is advised that pricing strategies should have all-cost coverage and highly skilled employees in every area. (Ammar 2016.)

4.2 Contextual determinants in tourism that affect pricing decisions

Pricing decisions should be made based on numerous factors that affect pricing including all spectrums of pricing elements, marketing mix components and contextual characteristics of tourism (Albrecht et al. 2023). It is required that the company should put an effort into profit optimization but still maintain quality standards. Due to the nature of the tourism industry, the achievable pricing approach should first follow the unmanageable characteristics of tourism (Prastiti, Narsa & Narsa 2021).

The first contextual determinant that needs to be considered is digital cross-platform settings. As the world enters the era of digital technology, price is harder to set than ever due to the easy accessibility via multiple online channels. Therefore, channel management is one of the important areas that should be focused on in the pricing process, especially in the tourism industry. In digital cross-platform settings, online visibility of tourism-oriented services is widely spread. It is suggested that in addition to core product attributes, company should consider non-core attributes in the service setting. (Ingenbleek et al. 2003.)

The revolution of the tourism market is associated with the Internet, in which online agencies and destinations are given the chance to offer self-made offerings or consigned offerings (Sahut & Hikkerova 2009). The forecasting process in a company operating on multiple online platforms should be done in a careful and precise way to prevent unexpected low rates of revenue (Ingenbleek et al. 2003). The complication of cross-platform originates from the difference in characteristics of multiple digital platforms, the matter of timing, constantly newly launched innovative services, and rivals. It is essential to have a deep understanding of the underlying forces of pricing in digital cross-platform settings and how they are perceived by customers. Factors that are frequently evaluated by customers are friendly user experience, platform proprietary advantage, and
unique brand signals of platforms. Therefore, to plan an ideal pricing approach in various platforms, the given resources of platform should be taken into serious consideration. It can be illustrated in the payment handling process, commissioning fee, and devotion to arranging offerings and prices, which are different across platforms. It should be noted that while using various platforms could raise brand visibility, it will also raise the risk range accordingly. (Christen et al. 2022.)

The second factor that need to be consider is sustainability as it is a central focus of the tourism industry. It is noted that companies following the movement will gain more monetary advantage with a great customer reach although the cost of these applications is higher than non-eco-friendly applications (Zhu & Sarkis 2016). Prior research has demonstrated that sustainability has been a strategic objective in multiple parts of tourism-oriented companies (Assaf & Josiassen 2012).

Technological factors has a critical effect on the pricing decisions of the company. As more companies opt for a multi-channel approach, there has been an increase in the number of customers having the practice of comparing prices and quality via reviews and third-party evaluation sites. Therefore, prices become more transparent and competitive nowadays. It is shown that digitalization has enabled sellers the ability to sell directly to customers online and also given the customer more control over choosing the optimal offerings regarding personal objectives (Sahut & Hikkerova 2009).

External factors significantly affect the tourism industry regarding prices and customer reference. Unexpected events caused by nature terrorists, or disease will lead to a change in price and supply and demand of tourism offerings in a time-based manner. (Assaf & Josiassen 2012.). Additionally, political concerns are shown to affect the price negatively as the price is set low to attract tourists to the destination while the price is set high or exceptionally high in a place where there is a stable political situation and fewer health risks.
Destination Competitiveness should be assessed before launching a new offerings. The promising image of a destination plays a key role in determining a customer's willingness to pay (Koschate-Fischer, Diamantopoulos & Oldenkotte 2012). The promising image of a destination plays a key role in determining a customer's willingness to pay (Koschate-Fischer et al. 2012). Tourism activities are chosen based on the incentive of tourists when choosing a destination. There are many reasons behind the decision of tourists in choosing the tourism activities that are available in a destination which can be listed as budget and price sensitivity, which is determined by duration of stay, age, and personal preference (Masiero & Nicolau 2012).

Tourist satisfaction with certain offerings is linked closely to other multiple tourism factors in the destination. Destination competitiveness is formed based on the linkage of tourism factors and the tacit agreement of providers and customers. (Cortese, Sinicropi, Pollifroni & Cantino 2021). This interrelated system mainly consists of companies, institutes, and other related actors. Cooperation is set as a standard in the market, which results in some common objectives among companies but with a broad range of offerings for customers to choose from. (Cortese et al. 2021.). In order to create a successful business in tourism with an unforgettable experience, it is critical that all tourism factors in the destination regarding how well the implementation and service quality and its innovation should be taken into consideration when determining price (Van der Zee & Vanneste 2015). The economic well-being of the nation is a critical factor that needs to be considered in the development process of new tourism-oriented offerings, especially in the case of business tourism (Assaf & Josiasssen 2012).

Destination competitiveness is determined by several factors that are associated closely with the government’s actions and developmental direction. Firstly, infrastructure development is a factor that affects the performance and cost of the services as transportation is important in the tourism industry. Secondly, natural, and cultural resources’ reputation is the base element that catches the attention of tourists. Therefore, destinations that positively make use of available resources can provide a solid base for tourism-oriented companies to compete in the global market. Thirdly, government regulations and policies are a fundamental basis
factor for deciding prices in tourism services. In places where taxes, tariffs and laws are strict and complicated, the price can be charged higher than in other places to survive in the local environment. Fourthly, price competitiveness is stimulated by currency. In international business context, whether the exchange rate is perceived as an attractive point depends on the expenditure level. It is implied that price competitiveness decreases when travel expenses rise, which in turn, business in the area will be affected. (Assaf & Josiassen 2012.)

The final factor is service quality as a driving force of purchase decisions. Tourism industry pricing relies heavily on the behavioural intention of customers. In the literature on travel tendencies of tourism, the relative importance of pricing has been subject to considerable discussion. The services in the current trend will have a chance to increase in price due to the scarcity and high demand for offerings. The reverse effect of travel incentives on pricing remains in scant attention; however, it is especially important in the process of setting prices according to Stangl et al. (2020). Price sensitivity should consider the customer's behavioural intention to purchase, in which value is perceived in a way that is related to the reasons underlying pricing decisions. (Stangl et al. 2020.)

Due to the characteristics of tourism offerings, which is defined as a service industry, new customers without prior knowledge utilize the company’s brand and service quality as a foundation for purchase decision (Jeong, Crompton & Hyun 2019). Deciding the appropriate price is not only about revenue generation but also about conveying an equally valuable message, which matches the quality expectation of customers, as prices serve as a form of indication for the service’s value (Masiero & Nicolau 2012). In the situation where there is a purchase in group, it is a common phenomenon that more expensive offerings will be more likely to be chosen (Jeong et al. 2019).
5 ANALYSIS OF THE PRICING APPROACH AND THE STRATEGIC PLAN OF THE SOPHISTICATED GEEK

5.1 Perception on pricing

It is vital to have a deep knowledge of the general pricing perspective in the operating process of The Sophisticated Geek. As the pricing perception has a considerable impact on the pricing approach of the company, understanding the matter will aid in identifying all the factors influencing pricing decisions inside company. Consequently, an appropriate clear direction can be drawn based on the analysis of the pricing approach in The Sophisticated Geek.

Moral value is considered as important as profitability. The company also acknowledged that the current offered price is low compared to the outcomes and the quality of the offerings. The experience of customers is prioritized to ensure that the experience is unique and is considered a lifetime experience. Otherwise, knowledge and service are well-prepared beforehand so that customers can fully engage in the experiences.

In the realization of the importance of pricing in operating the business in the long term, the company has paid attention to the pricing. The main long-term pricing goal is to sustain the business while maintaining all the value that was established from the beginning. Adjustments can be made regarding costs, competitors, and customers. Additionally, the company also accepts the scenario that innovative offerings will take time to be profitable and come to the finalization stage. The company accepts the risk of new offerings being unwelcomed by the public. The company aimed at a pricing approach that will consider properly the efforts of the company and the customer’s perception of the value of service offerings. It is learned that the company has tried to shift from a competition-based pricing method to a value-based method. It has recognized that competition-based pricing does not fit with the overall business strategy and its offerings’ segmentation.

During the interview, it was stated that the company has recognized the significance of implementing a pricing approach regarding the vision of the
company. Gaining knowledge from prior experience and customer insights, it is acknowledged that there should be more amount of consideration in customer perception in pricing. Additionally, the quality of the service is too intense. The company sometimes feels that it will be imbalanced to offer the price and service to a wide range of customers. Consequently, it is highlighted that the company has realized the current pricing situation, its strengths, and weaknesses. It was revealed that the spectrum of researching about pricing is relatively narrow, being primarily concerned with basic floors of pricing including cost, and customers while being a pioneer in the market to introduce innovative offerings.

5.2 Evaluation of implemented pricing practice

The pricing approach of the company in previous years followed the practice of a value-based method. The pricing for new services followed the pattern, which began with researching available resources, micro and macro environments, and customer needs. After that, all the costs were taken into account and projected plan was developed. A price is set based on the estimation of the company on the value of the offerings. Their offerings are usually considered to be pioneers in the region. The company frequently provides extra value which is tailored to different customers without extra fees. The offerings relied heavily on the knowledge of the direct person who interacts with customers. Moreover, the price is applied based on the perceived value that the company finds appropriate. Therefore, after a period of operating, the company realized that the price was set low. There has been a growing understanding of the market, the customers, and the monetary value of the offerings. A need to strengthen the pricing policy of the company to maximize profitability is under concern.

There is a lack of precise estimation of the needed funds for the risk of unforeseeable events such as the COVID-19 pandemic and other political crises which lead to economic downturns. In the early stage of the business, it is stated that knowledge of the market environment in Estonia, which is the location of The Sophisticated Geek, remained scant before launching experiments to assess the feasibility of the pricing approach and innovative offerings. Additionally, a minimal budget was spent on advertising, and the company attracted customers with its competitive price and innovative features. Having been through many difficulties
and negative consequences, the company has reevaluated the overall business development strategy, and its vulnerability and started to become profitable. In assessment, the pricing approach has been applied and has seen some accomplishments. The booking level has been increased gradually and profitability has been recognized since then. Positive feedback has been received regarding the price and the service quality.

The pricing approach of The Sophisticated Geek takes into consideration aspects such as cost, competition, and customers. The dynamic approach was also considered; however, the seasonality of the previous tour format did not have a huge impact on the number of bookings. The flow of customers is expected to be stable as the main targeted segments are business travellers, expatriates, and digital nomads. Additionally, bundling is not applicable due to the overall business strategy at the given time. Before forming or adjusting the price, all core price elements were assessed in detail to answer the questions relating to value, customer segments, competition, and the service itself. The price also considers the commissioning fee when operating with an online platform. The price will be set based on different platforms, depending on the characteristics and the commissioning fee of the platforms.

5.3 The Sophisticated Geek’s plan for new line of service

The Sophisticated Geek is planning to develop a new offering, which is in the development stage. The company aimed to be one of the main sources of income. It is an experimental tour that focuses on both the self-development aspect and the shopping experience. The uniqueness of offerings’ characteristics is highlighted as key feature of the offerings. It will provide an experimental tour that helps customers have a deep understanding of their fashion style while experiencing shopping tours around the city, which are tailored to personal needs. The targeted market pool of the new tour format is the young generation.

According to the interview, the price of the new offerings is in the research stage. Customer feedback has been gathered to testify to the quality of the service as well as the willing-to-pay level of customers. The company has also recognized the importance of pricing, so they constantly reviewed the price to adjust the price
to be appropriate before officially publishing it on different platforms. The company aims at a pricing technique that is value-based. Otherwise, a wish to apply bundling methods for the new experiment is also under evaluation as the company recognizes the advantage of the different bundles in attracting customers based on their budget and needs.
6 RECOMMENDATION FOR PRICING APPROACH AT THE SOPHISTICATED GEEK

6.1 Reflection on the pricing process framework

A reflection on the pricing process framework will be made to assess the development plan. The pricing process framework builds on the reviewed literature and the specific situation of the company. It is systematically built to support the company in establishing its pricing approach regarding the characteristics of tourism. Due to the vulnerability of the tourism services, it is important to have many choices in each section, so alteration can be made in a timely manner.

The findings from the literature review and pricing analysis of The Sophisticated Geek illustrated that the currently applied pricing technique will generate more profit in general for the company if all pricing approach of every offering follows the same overall strategy. The current pricing approach has not been outlined as the topic has not been focused on while the company is still in its early stage of developing proper strategy and offerings to the public. In previous offerings, it is stated that the applied pricing practice is loosely defined as competition-based with applied dynamic pricing and quantity discount. Other pricing practices have not been seen in the current pricing situation of The Sophisticated Geek. The company originally aimed at value-based; however, it was withdrawn due to the unprecise prediction of the customer segment and its size and needs for its innovative offerings. Consequently, the tour price was set with the belief that it represents the optimal rate for all customer groups, considering the value of what is offered, and the effort put into creating the customer experience. It's recommended that The Sophisticated Geek should revise and integrate their overall business strategy more into their pricing methods. There should be a basic pricing framework applicable to all products, but each offering should also apply different pricing practices that are customized to its specific customer segment and unique features.
6.2 Effective pricing approach for the company

Drawing from academic theories, and information obtained during the interviews, suggestions for the pricing approach of The Sophisticated Geek are outlined. It aims at reinforcing the current pricing approach of the company. The objective of these suggestions is to strengthen the company’s pricing approach in the tourism sector with a focus on pricing for upcoming offerings.

Prior to the process of pricing, it is important to have a list of questions, which they will develop during the whole pricing. These questions are formed as follows, which were modified from the work of Boztuğ (2015).

TABLE 6. Questions to consider before entering pricing approach (Adapted from Boztuğ 2015)

<table>
<thead>
<tr>
<th>Factors</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost in Pricing</td>
<td>What is the vulnerable level of the company to the price cut or price increase? What type of unmanaged expenses that company can tolerate during the life cycle of the offerings?</td>
</tr>
<tr>
<td>Customer in Pricing</td>
<td>What is the price that the offering convinces the customer to pay? At which customer segments, value will be needed more or less?</td>
</tr>
<tr>
<td>Competitor in Pricing</td>
<td>In which type of market, the offerings are mostly profitable?</td>
</tr>
<tr>
<td>Pricing strategy fixing</td>
<td>What has changed to make the price unacceptable and how can we fix it?</td>
</tr>
<tr>
<td>Price setting</td>
<td>How to determine the price that will capture the value of our offering and maximize profitability?</td>
</tr>
</tbody>
</table>

Based on the reviewed literature, the proposed framework for the integrated pricing approach of The Sophisticated Geek is formed as figure 1 illustrates below.
Engage business strategy into pricing approach

Determine pricing objectives

Establish a pricing determinant management system

Establish a proactive pricing process

FIGURE 1. Integrated pricing framework

Engage business strategy into pricing approach

For long-term profitability, it is essential that the pricing approach is aligned with the overall business strategy. A systematic pricing approach is proposed based on the company strategy. As mentioned in the interview, the company prioritizes customer experience with a vision to help people in the process of self-development. Any changes in prices should take into consideration the overall strategic approach of the company so that the image of the company will remain positive.

Several factors should be considered in building a new pricing approach for the company. Due to the characteristics of tourism, price is published on the platform if choosing it. The price is easy to compare across different segments and other competitors; therefore, it is considered one of the factors that affect the brand reputation. Although each offering will have slightly different pricing objectives, it should all follow some general pricing objectives that suit the general business strategy. It is suggested that The Sophisticated Geek’s price should aim at price fairness, service quality leadership and customer need satisfaction.

Determine pricing objectives
In the service sector, each offering can have multiple pricing objectives. Regarding the goals and desires of the company obtained during the interview, the new offering’s shared objectives beside common objectives are noted as increasing the number of price lists, attracting new customers and survival objective as profitability. The company has a vision to boost the upcoming offerings to be the main service line of the business.

**Establish a pricing determinant management system**

The factors that influence the pricing process and customer perception should be assessed constantly. Contextual determinants should be considered at first to have a broad spectrum of the market. It is important to know the current situation of the industry, especially customer behaviour towards some specific service categories and the cost-generated factors that are special for the sector. The theoretical research suggested that the pricing should be at a reasonable level that can be justified. Elements such as customer motives, competitor’s strategy and market situation are tremendously important during the offering’s lifecycle. These are variable factors which can change timely, so it is essential to identify the market segment carefully at the beginning to effectively build an integrated long-run pricing framework in tourism.

**Establish a proactive pricing process**

The pricing process was from the price-setting process of Kotler and Keller (2016) merged with the value cascade of Nagle et al. (2023). Assessing the information gathered from the interviews, it comes to the suggestion that value-based is a suitable practice for the case company. From the empirical research combined with the current strategy for new offerings, value-based price-setting practice has many advantages for the case company that outweigh competition-based and cost-based practices. Although it is indicated that the offering’s price should cover the cost; however, the cost per tour constitutes only a minor portion. Additionally, due to the lack of competitors in the same segment, it is difficult to have a benchmark and gather competitive information although there can be market research and customer research beforehand. Value-based customers allow the company to quantify the value of the offerings while assessing the needs of customers to generate an appropriate pricing strategy for business in general and the offerings in specific.
In this stage, the value of the offerings should be quantified carefully. The situation where the offerings prioritize the company’s perceived value more than customer needs and willingness to pay. In the proposed offering, it should be careful when investigating the service inside to fit different customer segments. As the service price will be not necessary for some segments while for other segment, the customer is willing to pay more to use that service. After this step, a complete sheet of all valuable services and characteristics of customers should be listed in order to make suitable services and price those services respectively before estimating the combined prices. Defining the markets is the first step in the process, which is followed by the segments and the set targets. Finally, this stage is finished by having a selection of services that can be altered interchangeably and offered to the segments.

Based on the information collected during the interview, the appropriate strategy builds on the psychological part of customers and the economics of each segment so that the price can be perceived with fairness. In this stage, the competitive advantage of the offerings should be defined.

The new line of offerings is divided into two categories: standard and premium versions. In the basic version, the feature is limited so that the customer will experience the service to get an introduction to the personal style and the surrounding environment in the region. In the premium version, the offerings will provide more advanced services and knowledge. Additionally, The Sophisticated Geek can choose to utilize purchase quantity as it has applied for the launched experimental tour. A maximum number of customers has been set so that the quality remains at a good level. The larger the size of the group, the cheaper the tour price will be.

A set of pricing guidelines and stipulations, applied in a specific time, segments, and types of offerings, are essential for the situation when price change may be applicable with the general aim of enhancing the sales figures.

It is also noted that pricing policy should avoid being predictable so that the company can prevent the phenomenon that customers only purchase the
offerings at the sale price. The price negotiation, which is considered a long-term strategy, also needs to be prepared beforehand to mitigate risks as much as possible (Nagle et al. 2023). The Discounting for Volume and The Discount for Compensate for Past Failure is worth considering in situations where there should be a price change.

The price competition gap, many managers believe that the price will have a long-term effect on the pricing technique. In this stage, the competitive pricing analysis will be performed to gain more information on Reference Value which is defined as value that is equal to what competitors offer and identify Differentiating Value that differentiates the company from competitors (Nagle et al. 2023). From the information gathered during the interview, it is suggested that the Good-Better-Best Pricing strategy or price bundling is considered the optimal strategy after considering competitive factors.

In this stage, pricing metrics and levels will be considered with caution and iteration. The cost and revenue with the demand curve will be analysed in this stage together with the conjoint analysis and optimization model. Iterative as this pricing objective (drive volume or maximize margins) to apply the strategy to be appropriate at the time. Price-volume trade-offs for pricing strategy movement and break-even sales change calculations for pricing decisions at the time. Then, a price sensitivity and price elasticity, that is unrelated to the value, will be developed to assess whether some psychological pricing strategy can be applied depending on segments and market. The company defined the products aiming at higher cost infrequently purchased oneso that the impact on profit of pricing move can be assessed (Nagle et al. 2023). Finally, the factor affecting pricing analysis which is non-core product factors is evaluated to decide the final price before publishing. They are service quality as a driving force of purchase decision, Destination Competitiveness, External factors: Political Stability, Natural Events and Security, safety, and health, Technological factors, Environmental and Sustainability Concerns, and Digital cross-platform settings. These elements need to be considered during the final phase to ensure price fairness. The result is a price for a new offering as well as a pricing strategy for it. Pricing is an iterative process, therefore, it is worth noting that price should be assessed regularly regarding both internal and external factors.
7 CONCLUSION

The main objective of the thesis was to provide a better understanding of the pricing approach in tourism for The Sophisticated Geek. The thesis has examined the factors which are thought to contribute to pricing in tourism context. The literature review provided an overview of the current pricing literatures and applied pricing practices and considerations in tourism. Semi-structured interviews and content analysis were conducted to explore the intended strategic direction of the company towards new offerings.

Returning to the questions posed at the beginning of the thesis, in which the main question was:

- What is the pricing approach in the tourism industry?

The sub-questions are as follows:

- What is the current pricing approach situation of the commissioner?
- What is an important pricing element in the pricing process of the tourism industry?

It is possible to state that the key results contribute in several ways to the understanding of contextual pricing for the Sophisticated Geek. A holistic approach was utilized, integrating all reliable sources ranging from academic books, and published articles to news articles to give a discussion on the modern pricing strategies and factors. The thesis explored pricing literature that is applicable to touristic pricing, which creates a firm base for the empirical part. The thesis has achieved the objective of suggesting an applicable and interchangeable integrated pricing approach that The Sophisticated Geek can consider committing. It is based on the analysis of the current pricing situation as well as the intended tactic of the company combined with the investigation of pricing elements and contextual pricing determinants. A defined integrated iterative pricing framework for the tourism context is described as follows:

1. Engage business strategy into pricing approach
2. Determine pricing objectives
3. Establish pricing determinants in management system
4. Establish a proactive pricing process
This research enhances the current understanding of pricing specifically in the tourism sector by examining how pricing operates within the context of tourism. The findings in the thesis may be applied to other companies operating in the tourism industry. Regarding the research methods, some limitations should be acknowledged. It is worth noting that the scope of the study was limited in terms of the characteristics of the case company to make recommendations. The limitation is that study findings need to be interpreted cautiously. The strengths of the study represent the general examination of the whole topic. In the literature on tourism pricing, the relative importance of pricing in hospitality and tour packages has been subject to considerable discussion. Although studies have recognized the critical increase in other type of tourism, research has yet to systematically investigate the pricing in tourism in general.

Although pricing literature is widely studied, the pricing tailoring to the tourism industry received scant attention. Due to the limitation of the thesis, it has thrown up many questions in need of further investigation. Future work could investigate other pricing elements in dept that apply to the tourism sector such as different pricing tools, pricing elements, and pricing tactics. Additionally, the direction of researching pricing in the field of tourism can assess the link between pricing and customer intention reversely.
REFERENCES


Di Domenico, G., Premazzi, K., & Cugini, A. 2022. “I will pay you more, as long as you are transparent!”: An investigation of the pick-your-price participative pricing mechanism. Journal of Business Research 147, 403–419.


APPENDICES

Appendix 1. The first interview template

General information about the interview
1. Conduct in English.
2. Face-to-face meeting.
3. Aim at collecting information for the thesis.
4. Semi-structured interview.
5. This interview is confidential.
6. Participant of the interview are kept confidential.

Interview process
1. During the interview, interviewee has the right to repel answering any questions if the interviewee does not want to. Interviewee has the right to answer and ask for not including specific details in the thesis if the interviewee does not want to.
2. Asking for permission to record the interview and committing to using the information for the research purpose only.
3. Ask the interviewee the permission to record the interview and later tape the recording. Ask the interview permission to use the information for the thesis.
4. Ask prepared questions and follow with the flow of the interviewee.
5. Thank interviewee for sharing the information and contribution to the thesis research process.

Thesis related questions that will be asked during the interview

The commissioner status
1. Please describe the history of your company in a chronological order.
2. What is your main industry and service lines?
3. What is your current destination and the reason for choosing the destination?
4. What is your main targeted market?
5. What is your main groups of customers?
6. What kind of business model that your company follow?
7. How do you define your company in the targeted market?
8. In a near future, what is your company’s mission and vision?
9. What are your competitive advantages?
10. How do you evaluate the sustainability in your company?
11. Why are the company interested in the thesis? Could you describe your needs and expected outcomes?
12. Why is a proper pricing approach important for you?

**New line of service that the thesis aims at**

1. Please describe your new line of services and your operating strategy.
2. What is your objective concerning the new service?
3. In what season do you expect to earn more profit? How about the seasonality?
4. What is your main targeted market?
5. What is your main targeted customer segmentation?
6. How do you define your company in the targeted market?
7. What do your company think will be the competitive advantages for this service?
8. What is your expected outcomes and perspectives on the new line of service?
9. What do you think your company should change compared to previous service?
Appendix 2. The second interview template

**General information about the interview**

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5. Thank interviewee for sharing the information and contribution to the thesis research process.

**Thesis related questions that will be asked during the interview**

**The commissioner current pricing strategy**

1. What is your pricing approach? And why did you choose it?
2. What is your pricing objective and elements that you considered in pricing?
3. What is the tools or models that you used?
4. What is the difficulties that you encountered and your accomplishment?
5. How do you overcome those obstacles?
7. Is there any lessons you learned from it?
New line of service that the thesis aims at

1. Is it appropriate to implement new pricing approach at the current stage?
2. What is your plan for implementing pricing strategy for new offerings?
3. Concerning pricing approach, what will you change compared to the previous offerings’ pricing approach?
4. What is your pricing objective for new offerings?
5. What predicted elements will make the price become unacceptable and how can you fix it? What is the tolerate level of the business when there is a price increase or a price cut?
6. How to determine the price that will capture the value of our offering and maximize profitability?
7. At which price level, the price is accepted by customers? Is it possible to segment the markets to offer suitable services for different customers?