Pricing and domestic tourism performance in Zimbabwe

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Abstract

There has been too much attention to international tourism in developing nations than domestic tourism. However; international tourism has proved that it is highly sensitive to international trends like global financial crises, terrorism, sustainability issues and politics. On the contrary domestic tourism is stable and has proved to be a source of tourism development in other nations. Thus this study sought to explore the extent to which pricing was affecting the performance of domestic tourism in Zimbabwe using a descriptive survey. Domestic tourists staying in hotels made up the population. Results indicated that most tourism products were moderately priced. It was also revealed that Zimbabwean domestic tourists are highly price sensitive. It was concluded that in Zimbabwe pricing policies are affecting domestic tourism performance. Major insights were that domestic tourists were in favour of least pricing, discount pricing, differentiated pricing and price bundling.

Key Words: Pricing; Domestic Tourism, Tourism Performance, Zimbabwe, Tourism Economics

Introduction

According to Garin-Munoz (2009),) tourism is an industry that provides services and experiences of domestic resources to foreign and domestic consumers in exchange for revenue. Roe et al (2004) defines tourism as the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. Countries the world over, particularly developing countries with unstable economies have come to recognize the importance of tourism to local economies (Mazimhaka, 2006) and domestic tourism in particular has played a key role (Ndlovu et al., 2010). In Africa there is a systematic bias in national tourism development planning towards international tourism as opposed to domestic tourism (Ghimire, 2001) yet the volatility of international tourism and relative stability of domestic tourism are widely recognised in research (Cosshall, 2009; Mkono, 2012; Ritchie and Crouch, 1993).

Mkono (2012) and Moseley et al., (2007) identified a number of reasons why domestic tourism is not favoured. These includes minimal discretionary income among the majority of developing nations' population, the presents and demands of immediate challenges facing developing nations' governments that include HIV, dilapidated infrastructure and poverty that constraints their ability to stimulate domestic tourism.
In most developing countries tourism is focused primarily on international market causing prices to increase beyond the affordability of most domestic tourists. Zimbabwe along with most of its neighbours adopts a differentiated charging system throughout much of its tourism industry. Zimbabweans pay the lowest amount, residents of neighbouring countries pay a moderate fee and international visitors are being charged the highest. However this three tier system was designed years before Zimbabwe experienced an economic crisis between 2000 and 2009 (Murray, 2010). Murray (abid) argues that the purpose of the policy appears to be more of revenue maximisation based on visitor’s nationality than allowing poor African to enjoy their heritage as the fees are still too high for the average citizen.

Poor pricing policies have lead to a decline in domestic tourism (Walpole et al., 2008). According to Mazimhaka (2006) in most developing countries tourism is focused primarily on the international market and this has caused prices to increase beyond the affordability of most domestic tourists. If pricing policies are not addressed, developing nations’ tourism industry will lose the economic benefits that could have accrued through domestic tourism (Walpole et al., 2008). Thus this study sought to explore the extent to which pricing affects the performance of domestic tourism in Zimbabwe.

LITERATURE REVIEW

Pricing

Price is a measure by which industrial customers judge the value of an offering and it strongly impacts on brand selections among competing alternatives (Avlontis and Indounas, 2007). Furthermore, pricing is the only element of the marketing mix that brings in revenue for the firm, while it is also the most flexible element of this mix because the pricing decisions can be implemented relatively quickly. For example price changes can be adapted easily to the conditions surrounding a company’s internal or external environment (Lowengart and Mizrahi, 2000). Pricing objectives provide direction for action when setting prices. Empirical research has indicated that the objective functions of companies are versatile in that the viability of companies rests on a combination of different pricing objectives (Diamantopoulos, 1991). These objectives are flexible and change over time due to environmental or organizational conditions.

Pricing methods depend on the specific formulas used in order to levy a price. These formulas might range from highly sophisticated ones to rather simple ones that employ a more general approach to setting a price (Diamantopoulos, 1991). Moreover, the complexity of pricing decisions imposes the need to adopt more than one pricing method in many cases. For instance, a particular pricing method might be used in everyday pricing decisions, while another method may be adopted in some special circumstances, for example to discourage a new competitor from entering the market. After a review of the literature on industrial pricing and service pricing eight pricing methods were revealed, which fall into three broader categories which are cost-based, competition-based and customer-based. During the pricing process tourism establishments consider a number of factors. These include the location of their business unit vis-à-vis the Central Business District (CBD). Those closely located to the CBD are highly priced than those located far afield (Lee and Jang, 2012). During high demand season proximity to the CBD allows hotels to enjoy a high room rate premium. In low demand season proximity to the CBD forces hotels to discount the room rates in consideration of the actions of adjacent properties.

Yield management is another key element in pricing policies in recent years (Rondan-Cataluna and Rosa-Diaz, 2014). Yield management is a way of managing the demand and supply by simultaneously
manipulating prices and available capacity (Avlonitis and Indounas, 2007). Through yield management managers may allocate the available capacity at any time, monitoring the market segments and setting prices according to market demand and price sensitivity. Lower prices will be charged to price sensitive segments and higher prices to those segments that show a greater willingness and ability to pay. As a result organisations are able to maximise revenues from the available capacity (Selmi, 2010). According to Christie and Crompton (2001) pricing of hotel rooms is aggressive and both sophisticated and opportunistic. Each hotel room within the same hotel sells for a different price depending on its location, view and size. To add on, the same hotel room sells for a variety of prices depending on several additional factors. For example, because hotels have fixed costs that are high, capital and operating costs, occupancy rates can be as important to a hotel manager as price, provided that variable costs are covered. Therefore, prices lower than the rack or advertised rate may be offered to groups in order to cover the unit fixed costs. Similarly, prices vary in the off, shoulder and peak seasons for the same room. Sometimes for social, political or even economic reasons, preferential prices apply to domestic tourists. Sahay (2007) noted that most companies use comparatively simple strategies to determine prices and these include: uniform pricing, competitive pricing and cost-plus pricing. In uniform pricing, companies let prices remain the same over time, regardless of the changes in the environment (Farahmand and Chatterjee, 2008). In competitive pricing, companies set prices based on competitors prices while companies with cost-plus pricing calculate the cost of a good or service and then add a profit margin. Uniform pricing has been evaluated as not viable since the tourism business today is so dynamic that it needs to adjust to changes (Sahay, 2007).

Importance of Pricing

Pricing is an art and its main goals are to optimize profit, reduce losses and maintain market share for the organization and the industry (Sangkaworn and Mujtaba, 2010). According to Gallego and Şahin (2010) price is a very important factor in the operational market because this is the only element among the four P’s of marketing mix that generates income. Sangkaworn and Mujtaba (2010) states that pricing is a science however it is not necessarily an exact science because it requires some skill and research. Through an exhaustive accumulation of decision-making information combined with how the company operates, managers can create a good pricing policy. According to O’Hara (1995) pricing plays a major role in any business establishment. He suggested that the right price is one which the customers will be willing to pay and at the same time it allows a reasonable margin of profit. Prices influence the market share, competition, profit, product quality and the entire marketing program.

Effects of Pricing

According to Christie and Crompton (2001) competition in the tourism industry is driven not just by price and volume, but also by innovation, technological advancements and entrepreneurial management. However, without a doubt price is a key element in influencing the tourist’s decision to choose one destination over another. This is usually what happens with mass tourism where the demand for a beach, sun and sea holiday often overrides differentiation between resorts because such packages are sold almost as commodities. A holiday organised by an international tour operator, who receives a commission for the service, includes transport as well as accommodation and tourist services. The total cost of the package plays a significant role in the selection of a destination for all but high income tourists.
Factors Considered When Pricing

Avlonitis and Indounas (2007) argue that pricing objectives provide direction for action when setting prices. Pricing objectives can either be quantitative or qualitative in nature. Quantitative can be measured more directly and are related to profits, market share, sales or financial indices such as liquidity or return on investment. They are expressed in terms of money or in the form of ratios for example return on assets. Qualitative are hardly operational and describe relationship of the company to its customers for example determination of fair prices for them, competition that is price stability in the market. If the focus of pricing is purely financial, then profit maximisation is the most advantageous strategy. Given the overall demand function, a price is selected to maximize profits. In many cases, it is possible to charge different prices to separate readily identifiable groups. In this case, the profit maximisation problem becomes one of selecting a number of different prices that match with the number of different groups to maximise the profit function. Such a policy is called profit maximisation through price differentiation. The approach is commonly applied with concessionary prices extended to, for example, children, students and senior citizens. The ability to differentiate prices between different groups will enable the site to increase profits vis-à-vis the single price solution, as long as the groups have different demand curves for access to the site. While price differentiation can be used effectively to capture more revenue for the site management, it can also be applied to achieve other goals, such as ensuring access for vulnerable groups (Mourato et al., 2004).

Domestic Tourism

World Tourism Organization in Mena (2004) defines domestic tourism is the class of tourism in which the place of visit of the traveller is within the political boundaries of the country of residence. Thus domestic tourism constitutes the activities of persons travelling to and staying in places outside their usual environment but within the country of residence for not more than one year for leisure, business and other purposes without engaging in remunerative work and with intention to go back.

Importance of Domestic Tourism

According to Mazimhaka (2007) the development of domestic tourism can bring stability to a volatile industry and create a more sustainable path for tourism development. In Kenya it was recently observed that domestic tourism forms the basis for a stronger international tourism. It also bridges the seasonality gap and therefore creates jobs and stability in the employment sector (Mazimhaka, 2007). Domestic tourism can also help non-five star hotels and restaurants in the country secure steady business and since domestic tourism is the biggest generator of jobs can create a more consistent market demanding consistent service. The economic contribution of domestic tourism can be significant even when domestic tourists do not have high spending power (Scheyvens, 2007). According to Scheyvens (2007) domestic tourism requires little foreign exchange to develop and it is not vulnerable to fluctuations in numbers caused by seasonality or problems arising from travel booking system, international airline schedules, changing international tastes, perceived security threats or world economic recession. Furthermore domestic tourists can contribute immensely to local economic development because they typically purchase more locally produced goods and services than other categories of tourists thus supporting small-scale enterprises and the informal sector (Scheyvens 2007). According to Athanassopoulos and Hyndman (2008) domestic tourism plays a significant role in maintaining and improving infrastructure especially in regional Australia. An Australian tourist is more prone than an
international tourist to visit regional and remote areas of Australia that are not internationally promoted.

Mazimhaka (2007) in Rwanda after conducting a survey, tourism stakeholders indicated a belief that a strong demand for domestic tourism in the country could help create tourism awareness and a tourism culture and has the potential to sustain the overall tourism industry. Furthermore when tourism grows in the country people will begin to believe in it and gain a sense of national pride. This pride will encourage locals to go out of their way to ensure that international tourists enjoy their stay by providing friendly service and knowledgeable information. According to Mustafa (2012) there is a significant contribution of domestic tourism to the development of any nation because within each country, domestic tourism contributes to an improved balance of the national economy through a redistribution of the national income. Domestic tourism also increases the awareness of common interest and contributes to the development of activities favourable to the general economy of the country. Thus, the development of tourism from abroad should be accompanied by a similar effort to expand domestic tourism. Furthermore domestic tourism also considers social aspects, since the right to holidays, the opportunity for the citizen to get to know his own environment, a deeper awareness of his national identity and of the solidarity that links him to his compatriots and the sense of belonging to a culture and to a people are all major reasons for stimulating the individual’s participation in domestic tourism, through access to holidays and travel.

Pricing and Domestic Tourism (The nexus)

Otero-Giraldez et al (2012) avers that previous research assumes that tourism demand is predominantly influenced by socio-economic factors such as population, income, price level, substitute prices and marketing expenditures on promotional activities (Law and Au, 1999). However, the main factors determining tourists’ choices turn out to be both economic and non-economic. Despite being so important, in fact economic demand driven variables alone do not adequately explain tourism flows since several supply side qualitative determinants also influence a traveller’s behaviour (Zhan and Jensen, 2007; Eilat and Einav, 2004; Khadaroo and Seetanoh, 2008).

In a study to determine determinants of domestic tourism demand in Spain, Garin-Munoz (2009) concluded that elasticities for domestic tourism demand are very sensitive to income and prices. Massida and Etzo (2012) and Garin-Munoz (2009) found that relative prices and real income are the main determinants of domestic tourism in the regions of Northumbia (UK) and Galicia (Spain) respectively. Their studies also indicate that domestic tourists are less sensitive to income and price changes as compared to international ones. This is in agreement with both Bingano et al (2006) and Athanosopoulos and Hyndman (2008) who concluded that income elasticity of domestic holidays is positive for countries with low income, but falls as income grows and eventually goes negative.

Most tourism businesses place their focus on foreign markets. As a result many domestic travellers cannot afford the high prices which foreign travellers are willing to pay. Business owners are reluctant to lower their costs to accommodate the domestic tourist because it would result in a loss of income that could be easily gained through continuing efforts to attract the foreign market (Moseley et al, 2007). Pricing strategy should be based on a combination of policy objectives and information about visitors to a destination’s willingness to pay. Thus pricing can be used as a tool to achieve certain objectives. There are varied reasons why domestic tourism should be promoted in developing countries. Firstly
international tourism is vulnerable to international shocks which can result in very low visitor numbers. Secondly there is growing competition for international tourists with other countries in the region and beyond that offer similar attractions at competitive rates than developing nations. Thirdly domestic tourism should be promoted as a basis for international tourism; meaning that international tourism can be sustained over the longer term once a culture of tourism has been developed amongst a country’s residents. Furthermore domestic tourism is easy because of the existence of a common currency and absence of documentation barriers ordinarily required for foreign travel.

METHODS

The methodology used in this study was a descriptive survey. The sample size of two hundred (200) guests staying in Harare’s 3-5 star rated hotels was targeted. A pre-coded closed ended questionnaire was distributed by the researchers using convenience sampling to guests as they check into the hotels. Questionnaires were collected the following morning as guests went for breakfast. A total of 188 questionnaires were returned whilst only 182 were complete and usable giving a 91% responses rate.

RESULTS

Of the total respondents males constituted 47% and 53% were females. This representation was done to have a balanced view of how prices were influencing their participation in domestic tourism. The mean age range was 18-30 years with 49% of the respondents and this group was also the mode as it had the highest frequency. The median age was the 31-45 years age group with 39% representation. The middle age group from 46-60 had a 10% representation and then the elderly those above 65 years had a 2% representation. Of the total number of respondents, 90% were employed whilst 10% were not. The majority of the respondents were from middle density residential areas with 44%, high density 30% and low density coming last with 26%. The respondents salaries were as shown in figure 1. Their reason of travelling was 48% business, 42% recreation and leisure and 10% visiting friends and relatives.

Figure 1: Income Distribution (US$)
Table 1: Pricing of tourism products

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>2.68</td>
<td>0.612</td>
<td>0.375</td>
</tr>
<tr>
<td>Lodges</td>
<td>2.52</td>
<td>0.689</td>
<td>0.475</td>
</tr>
<tr>
<td>Bed and b/fast house</td>
<td>1.95</td>
<td>0.736</td>
<td>0.541</td>
</tr>
<tr>
<td>Food in restaurants</td>
<td>2.53</td>
<td>0.720</td>
<td>0.519</td>
</tr>
<tr>
<td>Food in fast-foods</td>
<td>1.73</td>
<td>0.761</td>
<td>0.579</td>
</tr>
<tr>
<td>Beverages</td>
<td>1.95</td>
<td>0.765</td>
<td>0.586</td>
</tr>
<tr>
<td>Historical sites</td>
<td>1.93</td>
<td>0.772</td>
<td>0.596</td>
</tr>
<tr>
<td>National parks</td>
<td>1.85</td>
<td>0.773</td>
<td>0.598</td>
</tr>
<tr>
<td>Natural features and wonders</td>
<td>2.09</td>
<td>0.784</td>
<td>0.814</td>
</tr>
<tr>
<td>Artistic and architectural features</td>
<td>2.00</td>
<td>0.775</td>
<td>0.600</td>
</tr>
</tbody>
</table>

Table 1 above indicates that the mean values are ranging from 1.73 to 2.68 on a three point Likert scale ranging from inexpensive to expensive. The results show that prices of most tourism products in Zimbabwe were considered as neither expensive nor inexpensive whilst prices for accommodation and food were rated as expensive.

Table 2: Determinants that influence decision to travel

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical sites</td>
<td>4.03</td>
<td>1.100</td>
<td>1.210</td>
</tr>
<tr>
<td>National parks</td>
<td>4.10</td>
<td>0.955</td>
<td>0.912</td>
</tr>
<tr>
<td>Natural features and wonders</td>
<td>4.21</td>
<td>0.995</td>
<td>0.989</td>
</tr>
<tr>
<td>Artistic and architectural features</td>
<td>3.51</td>
<td>1.177</td>
<td>1.386</td>
</tr>
<tr>
<td>Urban area</td>
<td>3.40</td>
<td>1.094</td>
<td>1.197</td>
</tr>
<tr>
<td>Rural area</td>
<td>3.31</td>
<td>1.236</td>
<td>1.526</td>
</tr>
<tr>
<td>Resort area</td>
<td>4.34</td>
<td>0.980</td>
<td>0.960</td>
</tr>
</tbody>
</table>
Table 2 above indicates that the mean values were ranging from 2.06 to 4.10 on a five point Likert scale ranging from very unimportant to very important determinants that influence decision to travel. Thus to say the responses were ranging from unimportant to important. Most respondents considered attractions as important. Location of destination as being urban or rural, respondents were neutral whereas for resort areas the respondents considered them important. Air and road transport were seen as important whilst rail transport was considered as unimportant. Activities offered at the destination were all regarded as important. On pricing respondents indicated that how expensive or inexpensive a destination is was important in determining their choice of a destination. For all other determinants the standard deviation was above 1 showing that responses were deviating from the mean except for national parks and natural features and wonders as attractions and resorts area locations.

### Table 3: Likelihood to purchase products after a price increase

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>2.19</td>
<td>1.150</td>
<td>1.323</td>
</tr>
<tr>
<td>Lodges</td>
<td>1.80</td>
<td>0.46</td>
<td>0.716</td>
</tr>
<tr>
<td>Bed and b/fast house</td>
<td>3.11</td>
<td>1.269</td>
<td>1.610</td>
</tr>
<tr>
<td>Food in restaurants</td>
<td>2.19</td>
<td>0.977</td>
<td>0.954</td>
</tr>
<tr>
<td>Food in fast-foods</td>
<td>3.24</td>
<td>1.319</td>
<td>1.741</td>
</tr>
<tr>
<td>Beverages</td>
<td>3.34</td>
<td>1.301</td>
<td>1.694</td>
</tr>
</tbody>
</table>
From table 3 above the mean values were ranging from 1.80 to 3.37 on a five point Likert scale ranging from very low to very high likelihood to purchase products after a price increase. This implies that majority of the responses were low and neutral. The standard deviation for most of the items was above 1 an indication that there was variability in the responses, except for likelihood to purchase accommodation in lodges and purchasing food in restaurants. This means respondents were very sensitive to price increases in hotel and lodge accommodation and restaurant food. This price sensitivity influences the customers purchase intentions and behaviour (Zeithmal et al., 2006; Dellaert and Lindberg, 2003) especially amongst highly literate people as is the case in Zimbabwe.

Table 4: Regression Table

<table>
<thead>
<tr>
<th>Pricing of tourism products</th>
<th>Predicted direction</th>
<th>Beta value</th>
<th>t-value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(n=182)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attractions</td>
<td>+</td>
<td>-0.284</td>
<td>-3.032</td>
<td>0.003</td>
</tr>
<tr>
<td>Accommodation</td>
<td>+</td>
<td>0.284</td>
<td>-2.829</td>
<td>0.006</td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>+</td>
<td>0.181</td>
<td>1.954</td>
<td>0.054</td>
</tr>
<tr>
<td>Hospitality products</td>
<td>+</td>
<td>0.359</td>
<td>3.891</td>
<td>0.000</td>
</tr>
<tr>
<td>R²</td>
<td></td>
<td></td>
<td></td>
<td>0.434</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td></td>
<td></td>
<td></td>
<td>0.408</td>
</tr>
</tbody>
</table>

p<0.05

Table 4 above indicates that the pricing of attractions, accommodation and food and beverages that make up hospitality products explain 41% (Adj.R²=0.408) of the impact these have on the likelihood of tourists to purchase tourism products after a price increase.

DISCUSSION

The pricing of hospitality products has a bearing on the performance of domestic tourism. This is because when it comes to visiting, a tourist destination should comprise of attractions, infrastructure, transportation and hospitality (Mill and
Morrison, 2002). According to Hemmington and King (2000) hotels have a long tradition of providing both food and accommodation for travellers as part of an integrated hospitality product. Thus this clearly shows that a relationship exists between how tourism products are being priced and to how domestic tourism is performing. The results of this study supports earlier work by Otero-Giraldez et al (2012), Garin- Munoz (2009), Massida and Etzo (2012) and Allen, et al (2009) that price and income have an influence on determining domestic tourism demand. People in Zimbabwe are currently earning an income however their ability to participate in tourism hinges on disposable income (Divisekera, 2009). Cooper et al (2005) noted that tourism is an expensive activity that demands a certain threshold of income before participation is possible.

It is widely accepted that levels of wellbeing, prevalence of deadly diseases, high tax regime and extended family commitments reduces discretionary income (Whiteside, 2001). Guided by Maslow’s hierarchy of needs tourism is naturally relegated to the last on to do list when somehow one can afford it. Given the high demand for money and the sensitivity to price increase the results clearly indicates that a relationship exists between the pricing of tourism products and how domestic tourism is performing. Discretionary income is the main determinant that influences the decision to travel. Therefore as indicated by the regression model, price increases in attractions, accommodation, food and beverages and hospitality products are highly significant in influencing the decision to participate in tourism.

CONCLUSION

The findings of the study were that tourists were price sensitive to products such as accommodation in hotels and lodges and to food that is sold in restaurants. In a country dominated by low to middle income earners who are highly literate prices have proved to be a key determinant in the success of domestic tourism. Pricing alone explains 41% of the decision to participate in domestic tourism which is very high considering that the 59% remaining accounts for many other factors like time, income, environment, and support for domestic tourism among others not part of this study.

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