

Value Revelation of Differentiated Goods in the Travel Industry

Discussion Paper

By

Pongsak Hoontrakul, DBA ^π
Sasin of Chulalongkorn University, Thailand

First Draft: March 20, 2003
Current Draft: January 6, 2004

ABSTRACT

The market for hotel and travel-related services can be seen as one in which the goods are differentiated products. Classification by the information content of goods – search goods, experience goods, post-experience goods and credence goods applies well to this market. Corrective measures are suggested for the market imperfections implied by asymmetry of information and transactions costs. Implications of this characterization for national policies and private business strategies in travel-related industries are examined, specifically for Thailand. Mass media marketing campaigns for tourism expansion, over-utilizing our natural resource and commoditizing travel products and cultural tourism, are not advocated. Efforts to achieve balance between demand and capacity through local involvement are more productive for sustainable tourism; examples are given. Innovative development, niche marketing, and high value endeavors are critical elements of a value enhancement business strategy. Internet usage aids in the reduction of informational imperfection. In order that online advertising be effective and directed at the relevant customer needs, it must make use of search engine marketing in the proper context.

JEL keywords: theory of choice, economics of information, asymmetric information

^π The contents of this paper in part or in whole are entirely those of the authors and do not represent the views and opinions of Sasin of Chulalongkorn University and any organization associated with the authors. Comments are welcome. All correspondence is directed to Pongsak Hoontrakul, Research Fellow, Sasin-GIBA, Chulalongkorn University, Sasa Patasala Building, 8th floor, Soi Chulalongkorn 12 (2), Phayathai Road, Bangkok 10330, Thailand. Private Tel. (662) 954 1689 ; Fax (662) 954 1690 ; Email : Pongsak@Hoontrakul.com URL : www.Pongsak.Hoontrakul.com

Value Resolution of Differentiated Goods in the Travel Industry

By Pongsak Hoontrakul

The traditional travel related and hotel industry business model was based on the assumption of a location specific, room and bed provider. Recently, hoteliers and tourism supply providers started to realize that staying in a hotel and traveling can provide a unique feeling and enjoyment to visitors. Many appealing hospitality offers have emerged with countless marketing and sale campaigns. Indeed, the travel business is in the business of creating experiences. What kind of experience are we talking about? What are the policy and business implications for creating differentiated experiences? Few theoretical, economic perspectives have been presented extensively on travel-related products and services, especially hotel and hospitality. In this paper, I attempt to discuss the hotel, travel and hospitality business analogously to other types of goods and services, by classification according to four different informational processes, and discuss business implications.

I. Introduction

Consumers wishing to purchase products [e.g. hotel rooms, tours, cars, soap, etc.] in real life face the daunting task of selecting from different alternatives. The benefits they consider can often only be viewed as expectations in most cases, especially in the hospitality or hotel business. Given the variety of needs, the knowledge of others may not fully reveal the level of satisfaction they will achieve by consuming a certain product. In general, sellers know much more about their products than do buyers. There is consequently inherent uncertainty about the product specification and quality, and a lack of understanding of the match between the needs of a consumer and characteristics of a product.

The choice between product variants is also greatly influenced by the available information channel and the related uncertainty of information concerning different

quality¹ characteristics. The consumer can improve his or her level of information by consulting an expert or searching for more information. The variations in quality and other attributes, however, between the different types of good remains a major consideration, whereas the increased information level is costly. On the supply side of information economics, there exist production and transaction cost of information. The process of gathering data, analyzing these data into useful information, converting this information to valuable knowledge, and disseminating this knowledge to the end users in timely fashion is time consuming and costly. On the demand side, there exists a tradeoff between costs and benefits in searching for useful, timely and unbiased information.

Each person in society has varying amount of information and perceptions on any goods. Buyers and sellers in a marketplace occasionally transact with different amount of information about the quality and attributes of the goods being traded and how the goods are distributed. The value of expenditures by each person for acquiring more information differs greatly in different contexts. Often buyers value the goods subject to the information provided in sequence by sellers. More often than not, informational asymmetry is one of the primary reasons for a ‘free exchange’ market to fail, as presented in the seminal paper of Akerlof [1970]. In essence, a market price fails to reflect all the social costs and benefits.

II. Four Different Types of Goods: Theoretical Perspectives

Consider a product or service with two simple attributes: price and quality. The former would be objective, measured in term of monetary value, and unambiguously quantified and readily comparable. The latter is qualitative and subjective depending on the need, usefulness, taste, design, texture and context; by contrast, it can neither be readily quantified nor verified due to asymmetry of information and knowledge between buyers and sellers. Hence, consumers face varying degree of ambiguity in choosing different type of goods.

¹ In an economic context, quality is meant here to encapsulate all senses: design, visual, taste, innovation, preference, texture, image, etc.

There are four types of characteristics summarized in Table 1. In a sale, a “pre-cost” is defined as the cost of inspection prior to the purchase decision, and a “post-cost” is defined as the disutility coming from dissatisfaction with quality, both of these costs associated with a particular consumer. Goods can have either a low or high “pre-cost” of quality detection before purchase; then, there may be either a low (or even no) or high post-cost, which may be revealed immediately upon consumption or over time. Consumers may then make their purchasing decisions based on gathering information on products as follows:

1. Search Goods: Those goods (or services) which are standardized or have a low pre-cost of quality detection. Quality may easily be observable before purchase by simple physical or visual inspection. In essence, search goods’ quality may be learned without actually using them. Subsequently, because the quality may be known ex ante, any post-cost of quality detection is usually low. Consequently, information on the product can be obtained and compared efficiently with little search cost. Consumers commonly shop around and find the most preferred combination of price and quality. Given a low effort/low cost search, a consumer tends to do more searching for a bargain than necessary. In a nutshell, these production-process-oriented specifications goods have essentially ‘low involvement with low value’. It is merely identified as a commodity type. Soap, shampoo and unbundled twin bed hotel room are among the fine examples.

Branding² this type of search good to associate with certain organizations or attributes would naturally help a consumer to identify the product quality. The benefits to different consumers from branding may vary across time. Constraints on time and effort restrict the consumer’s ability to identify the best product from a range of alternatives. The key to selling a search good is to be competitive on price since product differentiation is marginal. One of the solutions for marketers may be to bundle products of different value to disguise the true cost. Moreover, the marketers can utilize price discrimination for different customer targets to maximize total sale

² A ‘brand’ is typically associated with an organization as the result of combination of the underlying product(s) or services, identity (and packaging), (intrinsic) value and (psychological) image. This is not just the trademark. In short, ‘branding’ is the differentiation and added values provided by brands over unbranded commodity products.

and profit. In sum, marketers would attempt to limit their products to attract small niche demand and to extract consumer surplus as much as possible. The promotional tactic for search goods would generally be a “push”³ or ‘hard sell’ model, using persuasion in place of rational arguments as to attributes.

2. Experience Goods: those goods, often intangibles, with easily observed quality after purchase and knowledge or sequential acquisition of exclusive sensation about the product quality. Quality satisfaction can be revealed effectively ex post. In other words, the quality of experience goods is normally learned only from experience – from actually using the product or ‘trying them out’. Consequently, the high post-cost of quality detection is a deterrent when a customer decides whether to buy the product. Since experience goods require more complicated appraisal than search goods in general, a customer tends to search less for the product comparison – in sharp contrast to search goods. Instead a customer would spend more time on learning about the product specific quality and on determining the potential level of satisfaction. In summary, this product has potentially ‘high involvement with ambiguous value’. Hence, information and content input on the product becomes a necessity for consumers to resolve the purchase decision. Repeat customers and referrals are the norm if the customers have once encountered an enjoyable experience. Amusement theme parks, Starbucks premium, fashionable coffee and three-days/ two-night cooking or mediation class offer good examples. (See next section for details.)

Clever marketers should be able to convince customer to purchase by providing useful as well as timely information on this kind of goods. Informative and well-designed substance advertisements are practical, while good narrative content directed to the customer target is critical. Interactivity with customer is also another key to successful sale. The ‘demand pull’⁴ or ‘soft sale’ promotion is pertinent, while

³ In ‘push’ advertising, one actively sends a one way unsolicited message to seek out potential audience to buy its campaigned products and services. In other words, sellers push their product to buyers without customer specification on their desired products.

⁴ A pull model involves a passive message sending to potential customers who are in search of product information.

emphasis on missing the pleasurable chance of not buying the product may be a successful psychological tactic. Product customization may be needed for each niche market. If secondary markets are available, then market value would help consumers to appraise their purchase decision.

3. Post Experience Goods: those goods characterized by a low cost of uncertain quality test, but high cost quality detection long after usage. 'High value and complex involvement' describes this kind of product. A vivid example is provided by antibiotics and vaccines. The cost of purchase and use of both is insignificant compared to the paramount importance of one's health. Yet, the actual effectiveness of such medicine may not be known long after usage. As the result, consumers tend to over-consume anti-biotic medicines when they get sick. On the other hand, a consumer tends to under-consume vaccines because of seemingly undetectable gain. When a consumer takes a vaccine, he or she hardly knows whether or not the vaccine actually prevents the corresponding disease. Unless he or she gets sick, the vaccine is assumed to be good quality. Similarly in the travel-related industry, surgical tours, English summer camps and eco-tourism are prime examples. (See next section for details.)

Suppliers have strong incentives to assure excellent quality by having a third party officially endorse, accredit or certify their merchandise. Frequently, government invention is needed to validate the product quality and to ensure public welfare, while an internationally recognized organization's advice is desirable. Referral, word of mouth and peer pressure are also very important. Scientific content and advocacy advertising are helpful. Private as well public advocacy⁵ groups, as trusted media would positively provide more creditability to the product and facilitate the sale. Tier pricing for each niche market similar to other type of goods is possible.

⁵ Advocacy groups normally evaluate the products and offer their research result information to consumers. Usually, public third parties have no profit motive, but lack sufficient funding, while private third parties provide information for a fee either as their business, or financed by private interest.

4. Credence Goods: those goods with high pre-costs and post-costs of quality detection⁶. Since the good is very complex with likely ‘hidden’ qualities⁷ and involves high detection cost before and after purchase, buyers have insufficient knowledge to judge the true quality of the product and service. Heavy reliance on the seller’s credentials is the primary factor to buyers. An undisputed record of honesty, excellence and commitment with respect to the quality of supply are among the usual good signals from sellers to buyers. ‘High value with high involvement’ reflects the credence good. This is the dream of all suppliers, where the price is relatively ‘inelastic’ and can be tailored to individual buying power. In short, credence goods show an asymmetry between seller and buyer with respect to knowledge acquisition. Buyers must combine the quality claims of the seller with information about the credibility of these claims before making any commitment. Finding a specialized doctor to treat for your own bladder cancer would be an excellent example in a real life case. ‘Rehabilitation centers’, ‘elderly friendly hotels’, ‘nursery care’ and surgical tours are also other good instances for hospitality-related businesses. (See next section for details.)

III. Implications

All goods or services, particularly in hospitality business are not uniform. Travel-related experience or pleasure associated with touring varies by location, even within the same country or same hotel chain. Policy makers as well as businesspersons ought to be aware of the differences and how these reflect the four broad perspectives discussed above. With good understanding, one can effectively capitalize on time and effort to market and sell tourism products. Some implications are as follows:

⁶ Credence implies confidence based on external evidence. A credential is a certification of the credence property implying an undisputed record of honesty, competence and determination with respect to the quality of supply. Buyers evaluate credence characteristics normally with reference to the seller’s credentials. In sum, credence goods are the goods which the buyers decide to buy based predominantly on concerns about credence characteristics and the seller’s credentials, not simply by pricing comparison.

⁷ Some of the hidden characteristics may be nutritional, hygienic, ethical, faith, professional and technical skill.

1. Policy Implications:

1.1 Rich mass marketing and poor value gain: A mass marketing campaign basically treats the offered goods (or services) as a homogenous search good, with few distinctive features. This adds little value to individual travel-related but distinct products, despite the tremendous amount of money and resources spent. The usual result is an ‘out-shouting’ search goods propaganda to an unsolicited audience in a world suffering from information overload. The ‘Amazing Thailand’, ‘Be My Guests’ and ‘Unseen Thailand’ billion baht campaigns may, for instance, aim to increase the number of tourist arrivals, without focusing on high value creation and profitability in the tourism industry. Indeed, increasing numbers of tourist arrivals yield marginal direct benefits, while generating negative externalities when capacity is exceeded. Economically, negative impacts can exist as hidden costs with import as well as export leakages; these are often exploited by rich countries that profit more from tourism than poor countries. Thailand, for instance, retains merely 30% of value, which is among the lowest value added tourism industry in the world comparing to the Caribbean (80%) and India (40%) according to the United Nations⁸. An estimated 70% of all the money spent by foreign tourists in Thailand ends up leaving the host country (via foreign tour operators, airline, imported drinks and food, hotel, etc.) as indicated in Table 2. In addition, socio-cultural⁹ and environmental problems¹⁰ witnessed from major tourist destinations are direct results from over capacity constraints. Thus, excessive mass tourism campaign can be detrimental to social welfare as the whole.

Tourism Authority of Thailand (TAT) should, for instance, re-orient away from ‘maximizing tourist arrivals and sale receipt’ policy by turning local natural resource and culture to be commodity or search good for low value mass market to a

⁸

See more details at <http://www.uneptie.org/pc/tourism/sust-tourism/economic.htm#contribute-econ>

⁹ Changes in community structures, culture clashes by economic inequality and irritation due to tourist behavior, physical influences causing social stress and ethical issue involving child labor, prostitution, crime generation and others are common pitfalls of excessive tourism. See more details and discussion at <http://www.uneptie.org/pc/tourism/sust-tourism/soc-drawbacks.htm>

¹⁰ There are at least three primary impact areas in environmental issues – natural resources, pollution and physical impacts. See more details and discussion at <http://www.uneptie.org/pc/tourism/sust-tourism/environment.htm>

‘more innovative, more value added’ policy. A substantial portion of the mass media marketing of TAT budget should be diverted to *knowledge-based* research and development to *empower* travel related suppliers to produce higher value and sophisticated travel propositions – experience, post experience and credence goods for more affluent travelers. The efforts might be decentralized to local participation, where experience and awareness of the local context can be matched to potential visitors’ preferences in a knowledge-building community. At the same time, the centralized TAT should function as an organizer and the platform for sharing of local knowledge and global dissemination of information.

The marketing campaign needs to be decentralized in order to be suitable for more research on product innovation and development products in the high value added market niche. Beach travel in the Caribbean and cultural tourism in Seville are excellent illustrations of strategic orientations towards ‘leisure and culture’ offerings and destination marketing integrated with local sustainable development¹¹. This would generate more positive externalities (e.g. aesthetic tradition, heritage preservation) benefiting the public, rather than negative externalities (e.g. pollution, over-capacity issues) resulting from too many tourist visitors.

1.2 Tourism, Culture and the Product Quality Cycle Evolution: All tourism, one way or another, is fundamentally cultural; it is a ‘holistic experience’. Discerning and affluent travelers value the tourism experience as an opportunity to enjoy the world of differences from their daily routine life. Yet, in contrast to the traditional concept of marketing based on the consumer’s need, tourism commonly begins with the supply side. Once a marketable travel-related product is introduced, the target market can be strategically organized, planned and implemented intellectually.

It is intriguing to note that the development of individual product characteristics, even travel-related, can be modeled in terms of the quality life cycle. Initially any no little known product or ‘new destination’ - newly welcoming tourism

¹¹ See for reference “Marketing Paper: Vol. 1” of the World Tourism Organization [2002].

countries like Vietnam, Burma or Thailand (as it was several decades ago) – may be viewed as a credence good. The attributes of the new travel product are subject to much interest among buyers and sellers. The mystery of the ‘unknown’ becomes the main attraction. The end result is a minimum standard with respect to the particular characteristic, since nothing much is to be expected except safety and comfort with this exotic encounter. Foreign travelers typically face a selection problem to identify what is best for themselves in an unknown territory. The norm is to pay a premium price for a trustworthy brand and for expert advice to reputable international travel agents in order to guarantee a rewarding adventure in an unfamiliar terrain. Local agents lack the resources to secure international recognition. In sum, the problem of imperfect information causes buyers inevitably to prefer well-established travel agents or sellers. This preference in effect gives market power to these agents, resulting in the establishment of an oligopolistic structure allowing them to extract excessive rents from both local suppliers and first-time visitors. Essentially, the lack of consumer knowledge of the product allows travel agents to charge a higher price than the marginal costs of production and engage in price discrimination against consumers. Consequently, the government has a good reason to intervene to provide more information and guarantees for foreign tourists and to set minimum standards and fair pricing guidelines to counteract the intermediary’s market power.

Once a market has developed and prospered, most of the mystery and charm has been discovered. Hence, with an increasingly long history the credence good evolves to be a search good or an experience good. The market is progressively more open to competition solely on price by new travel agents (‘free riders’) offering standardized tours as a commodity. (One current example of a package from China to Thailand is called ‘Near zero profit inbound flight and hotel tour’.) Many travel agents are now profiting by luring these new, naive visitors to buy over-priced merchandise (e.g. jewelry, souvenirs, clothing) in order to survive and prosper in the travel business. Consequently, boom and bust cycles in tourism and the hospitality industry are widely seen in popular destinations.

A common mistake is for a national tourist agency not to recognize the temporal transformation in the business cycle development and to rely too much on the old formula for success of mass tourism. Instead of emphasizing the creation of

additional demand from for example Russia and China, the agency should realize the diminishing importance and limitations of traditional media, intermediaries and a mass marketing strategy. In particular, the TAT should re-orient its policy to a **value enhancing strategy** and to developing higher value products via the new media online service.¹² The public policy focus should be on changing perceptions in order to re-establish the credence dimension for customers at higher value. Tourism in sensitive areas (e.g. protected areas, coastal line, islands, mountains) must be managed for sustainable use, for equitable sharing of benefits among local community and indigenous people, and for conservation of biological diversity.¹³ The TAT should also actively participate in conventions such as the Biological Diversity Convention, of the UN Commission on Sustainable Development, or the Blue Flag project of recognizing improvement of the coastal environment.

New knowledge on historical, archaeological and architectural heritage, for example, ought to be stressed with the aim of balancing demand and capacity and furthering local sustainable development. The artistic expressions of folklore, music, painting, sculpture and other arts should be additional components in a product-market conceptual model. Thus, product innovation and substantial and expert content development along with research should be a primary concern for the state (for the premium niche market). More positive externalities would be generated from these activities, in particular leading to the preservation of components of our heritage.

1.3 External Shocks – 9/11, SARS and Policy Responses: Today we all live in an age of anxiety and a world of uncertainties. An exogenous shock with severe adverse magnitude such as 9/11 or SARS in one part of the world is likely to have devastating effects on other parts of the world, particularly in the tourism industry. Deep discount pricing, special promotions and giveaways, along with mass media campaigns are typical reactive policy responses. What policy makers misunderstand

¹² See more discussion by Ryan and Hoontrakul [2003]

¹³ More details are available at <http://www.uneptie.org/pc/tourism/sensitive> for guidelines and discussion on sensitive areas, www.UNEP.net for helpful links on environment data and scientific institutions to develop environmental friendly policy and <http://www.sidsnet.org> for small island networks and others.

is the perception of value by consumers simply as benefits less costs. Yet what many fail to comprehend is that cost to consumer is not only appraised in terms of monetary value or price, but also in term of time, effort and psychic cost.

According to Hara and Saltzman [2002], a prolonged price cutting strategy after 9/11 incident created no significant increase in the occupancy rate and no value for the U.S. hotel industry. Luxury hotels, that may be thought of as 'experience goods', observed little impact after cutting prices on total revenue, with negative revenue per available room (RevPar). What is interesting is that price cutting in luxury hotels has yielded the wrong kind (less affluent) of guests, with less spending on other, profitable ancillary services, while driving traditional (affluent) guests away. The perception of the price cut, in short, implied reduction in quality in these noted first class hotels. For mid-scale hotels, there is a mixed message; business profitability increased in many cases due to some increases in food and beverage sales. Finally, for the budget hotel, equivalent to search goods, price cutting slightly increased occupancy rate, but the RevPar are down significantly. The net result revealed little or no impact on total revenue. Hara and Saltzman suggest that a price cutting strategy should be well thought out, particularly to compete for diminishing travel demand caused by psychic factors. In short, price discounting can never compensate for the fear. Preferably, the luxury hotel would spend more to address patronages' concerns on security measures and safety concerns to win more business and to enhance value for discerning customers.

The analogous strategy for the TAT is to avoid an 'Unseen Price' mass marketing campaign and to engage more in constructive rules and procedures to comfort visitors and to assist travel suppliers. One can further actively improve human resource capital by organizing and certifying professional training seminars among hospitality personnel. Also use of slack capacity for training civil servants would help to stimulate our own demand during this uncertain period.

2. Business Implications

2.1 Examples of converting a simple hotel room and Travel product to a higher value product: No product really has to be a commodity. The fundamental element is to comprehend exactly what the customers really want -and then to charge more to fulfill their wishes. In an uncertain economic environment, product innovation, marketing and pricing must be the center of strategy. Below are some examples of how to transform a simple hotel room business into high value propositions.

2.1.1 Hotel as a search good: If a twin room for two nights in a city is offered, this hotel room is an unbundled search good. Ability to compete in price becomes critically important. Small margins ought to be expected and cost control becomes essential. Independently owned and operated (IOO) hotels usually suffer high unit (average) costs because of the lack of economies of scale. IOO hotels can join a familiar chain to gain brand association and a central reservation operation at high franchise royalties. One can only do so much, however, in cost cutting before the pain exceeds the gain. Smart hoteliers would balance cuts with a range of high impact marketing and product innovation approaches. Because consumers have different preferences and price sensitivities, there is an opportunity to cater to all business segments. One can move further to extract more profit from consumer surplus by differentiating¹⁴ the product and reduce substitutability between products. As a matter of fact, analysis of market segmentation by data collection and processing of consumer demand is the basis of product differentiation. The structure of electronic commerce provides a means of collecting this information. Alternatively, because this knowledge is a public good, the public sector should take the responsibility for conducting this service.

Differentiation can be done through at least three dimensional approaches: 1) core offerings (e.g. features, service, performance, price, flexibility, design; 2)

¹⁴ When products are in a same product group, but not identical, this is called differentiated products.

‘Horizontal differentiation’ implies the difference is based on appearance or consumer preference.

‘Vertical differentiation’ implies given the equal priced products, the consumer prefer a product due to different in features.

intangible offerings (e.g. symbols, media, atmosphere.; and 3) augmented offerings (e.g. delivery, customer preference fulfillment, personal attention, on-demand service, warranties, loyalty programs.). Concisely, bright operators may offer need-based, market segmentation products instead of a simple search good. Quantity discounts, price discrimination¹⁵, dynamic pricing¹⁶, and bundling are some differentiation strategies. Large volume buyers may enjoy a lower price per unit than low volume consumers. Advanced booking customers, who help hoteliers to improve management of perishable room inventory, may enjoy a special price in comparison to last minute booking. Mixed bundling between products (e.g. flight and hotel, hotel and spa treatment) almost always raises the sellers' profit by comparison to pure bundling or non-bundling as cited by Choi et al [1997].

2.1.2 Hotel as an experience good: Instead of offering three days and two nights stay, IOO hoteliers can add more innovative products with other value propositions. Revitalizing weekend getaways with medical spa treatment, healthy meals with de-toxification therapy, three-day and two-night temple-stay meditation classes and two-day volunteer fund-raising work (to preserve Thai elephants, for instance) can be some of the experiences being proposed. The more enjoyable and interesting is an offer, the more likely it will be spread by word-of-mouth amongst participants and the more likely it will attract (free) media attention. Alternatively, IOO hotels can transform themselves into boutique hotels. Typically these boutique hotels would provide a personalized service at a lower cost than a chain hotel. “Joie de Vivre’s”¹⁷ cinematically-themed hotel Bijou in Los Angeles, the Archbishop’s Mansion for ‘opera lovers’ in San Francisco, and the unique atmosphere of exotic, enticing flavours (of Thailand and India) at Burasari Resort in Phuket are some newly discovered boutique hotel examples. It is particularly noteworthy that just be using

¹⁵ Because different customers have different preference, discriminatory prices are possible at least in three different degrees according to Choi et al [1997, chapter 7]. In the first degree, this is perfect price discrimination where sellers charge different individual price for each buyer. The second degree is based on customers’ voluntary choices as the price schedule reveals their preference. Finally, the third degree occurs when sellers have to rely on the incentives of each group to select an intended variety.

¹⁶ Dynamic pricing is a tactical pricing policy to maximize the firm’s profit and/or yield by varying price regularly according to firm’s inventory availability, production constrain, customer preference and market conditions.

¹⁷ ‘Joie de Vivre’ means ‘joy of life’.

these extraordinary (often unpronounceable or audacious) names, one already builds high expectations about the hotel's personality.

Since the experience of good quality can only be known after consumption, some type of government intervention or satisfaction guarantee by the firm to ensure minimal quality is needed. On the one hand, a possible strategy is to provide initially exceptionally high quality to seduce guests (buyers). Firms then have an incentive to dynamically and slowly lower the firm's reputation to reduce costs and maximize their profit (economic rent) at the consumers' expense. In this case revelation of the uncertain quality leaves customers who received a 'bad' product feeling 'cheated'. On the other hand, firms can build their reputation over time by using a low introductory price followed by a high regular price. During the initial period, if some aspects of product quality are lower than expectations, customers may tolerate the initially (slightly) inferior product performance. This latter strategy is more professional with long-lived reputation building; the former is quite common for myopic profiteering. In both cases, the initial quality misperception can adversely affect social welfare in both the short and long term.

Finally, the basic principles on the design of experience goods consist of at least five elements given in stages revealed over time. First, experience goods must have a *well-defined theme* to help the customer to recognize its product quality more easily. Bangkok Airways is, for example, a leisure traveler airline with only one class of service (tourist) and private airport, designed to resemble a beach bungalow, in Samui. Another example is the Rayawadee Hotel, Krabi with its 'leave the world behind you' slogan explicitly pursuing an escape theme. Second, the product impression must *harmonize with positive cues* and avoid any conflicting negative cues to confuse promise of quality. The Comfort Airport Hotel ought to be perceived, for example, as a refreshing stopover rather than as a means of avoiding traffic jams in the city. Third, to encourage more repeated 'guests' (buyers), *'tangible' memorabilia* such as bags, T-shirts or e-cards should be given out by 'stagers' (actors/ sellers) with personal touches as reminders. Fourth, experience goods must engage in *all five senses* [e.g. visual, touch, taste, aroma and sound] for a holistic verification of the anticipated experience. The more sensory the experience, the more memorable it will be for guests. A spa treatment in a simulated natural rainforest stage is another

example. Fifth, whenever possible, scripted *customer participation* – passive or active - must be encouraged, possibly in a story-based theme to enhance the product quality realization. Cooking classes (diving) as entertainment (escapism) can be viewed as a passive (active) participative realm. One final comment is that customers are always willing to pay dearly for a valuable experience. Hence, one should not give away this experience in product bundling in a simple cost-plus scheme. One has to envision a valuable guest experience within one's capabilities as a part of the process of entrepreneurial innovation.

2.1.3 Travel Product as a post experience good: If service providers (sellers) can provide a life-time transformation to the buyers, then this is beyond experience. The *post experience* can be inspirational as well as educational and must be sustainable through time. IT educational discovery, professional training and language school are good examples of high value hospitality - post experience - products. Another practical illustration is provided in full details by a Safari/Spa Healthy alternative program¹⁸.

Similar to the experience good in term of providing sensations and memorable event, post experience goods endure over time, as suggested by Pine and Gilmore [1999]. Because consumers have difficulty in determining the quality of the product, government regulations or a third party firm's assurance is required. The former can be a strict and limited licensing to operate the business, expressed as a minimum requirement of present professional staff; the latter can be in a form of international audit or ISO certification. Nevertheless, inefficiency may still arise from buyers unable to recognize the causality between consumption of the good and the good's quality. Consequently, buyers would over-consume (under-consume) the goods when the quality is over-estimated (under-estimated). Logically, value-based pricing or value-oriented offers in different versions may be offered, in accordance with customers' self-selection. Week-end or week-day training course, afternoon or evening IT classes, and organization an incentive group conference in off-season would be examples.

¹⁸ See more details at http://go2southafrica.com/g2sa_trav_spec.php?no=426

2.1.4 Hospitality as a credence good: ‘Surgical Tour at Cape Town’¹⁹

provides the details and vivid an example of a hospitality credence good. This travel was born out of the desire to combine specialized travel and a health retreat. Inexpensive cost in medical professional operation, affordable daily nursery care, and confidentiality in personalized treatment, on top of a soft adventure are the major benefits. Typically, rich country guests would enjoy the world class health facility with friendly medical therapy in a low labor cost, tourist attraction country like S. Africa, in the example, or Thailand.

A market for credence goods is very complex. Fundamentally, the credence good market is characterized by profound market imperfections from very high transaction costs, information asymmetries and the agency problem. Providing high quality information, internationally recognized certification, advocacy advertisement may be necessary, but not sufficient, to convince the consumers. Consumers are never sure about the extent of the good they actually need and the quality of the actual service remains uncertain both before purchase and long after actual consumption. In fact, it is often difficult, if not impossible, to find out whether necessary treatments have been performed. There is a strong incentive for the seller to cheat on the service due mainly to information asymmetry between buyers and sellers. Intermediaries (e.g. the local selling agent, state audit and monitor) may, therefore, play a critical role in mediating between the two markets to reduce the transaction costs and information asymmetries between service suppliers (hotel/hospital/professional providers) and service users (guests/patients). With high-quality information and credentials, the intermediaries may offer *ex ante* advisory services and *ex post* services in liability and contract enforcement like claim settlement from any bad advice, mistreatment, incomplete fulfillment, etc.

Multi-level marketing is likely required with a high degree of specialization. A requirement for a liability insurance guarantee, strict minimum standards and adherence to stringent procedures can be effective provisions regulated by a

¹⁹ See more details at <http://www.surgicaltourscapestown.co.za/>

government agency and internationally recognized institutions to resolve agency and incentive compatibility problems. Another approach would be to have a simple mechanism to ensure honest services by separation of diagnosis and treatment at different institutions. For instance, medical diagnosis performed in the home country and operational treatment in the visited country would accomplish this separation. Yet this separation may be a costly alternative if the diagnosis and treatment are not done jointly. It is intriguing to note that in this market the fixed price regime may perform better with this informational asymmetry problem than would a competitive pricing regime, because the market share of honest and high quality service is a more informative indicator than price competition.

3) Information Economics of Attention and New Economy: Information consumes attention according to Shapiro and Varian [1997]. A wealth of information in today's world creates poverty of attention. Because of limitations in human comprehension, relevancy and relationship of information are imperative. Travel-related products can be thought of as highly information intensive products. Most consumers, predominantly in the leisure tourism industry would first plan their vacation at least months in advance. Impulse buying is rare. Thus, mass marketing is wasteful.

Consumers would usually find more information about their travel interests via a search engine and relevant websites at their fingertips. Unlike TV, radio or paper based media, the internet is a combination of broadcasting and point-to-point communication. This can to a degree solve the information asymmetry. The internet is indeed the ideal medium for the tourism business, since the consumer actually goes and collects the product at the point of production – i.e. destination. Some online information providing and marketing implications are as below.

3.1 Search Goods and Search Engines: Given a standard hotel room, a consumer would like to compare price among online and offline vendors. One-stop online shopping, as at www.Expedia.com for the full range of travel products or www.MoreThailand.com for area-specific products, seems to be popular. At the same time, the losers seem to be direct sellers from hotels, airlines and tour companies, because of the inconvenience in shopping and price comparison and no mix-and-

match capabilities. In addition, search engine marketing and optimization are vital because information by suppliers is relevant and related to the information which potential customers are seeking. This is a major departure from any paper-based media and broadcasting advertising. The real issue remains how to rank among the top search engine pages in the ever growing and crowded cyberspace. When price is now more transparent than ever with simple click searches, profit margins can only be expected to diminish over time.

3.2 Context Providing Concept: For experience goods, a consumer would like to access more information readily provided by the sellers and other sources (e.g. from experts, web board, books and related journals) to decide on what is best for his or her interest. Complementary public services (by the TAT) in responding to these enquiries through high-traffic, content sites like www.LonelyPlanet.com and www.ThaiParks123.com and in providing research, trend and statistics to www.HotelMarketing.com and www.WebTravelNews.com would generate benefits to the industry. Direct sellers' websites as a catalogue are imperative. The regularly updated content would invite more visitors and referrals. A strong community with public participation and leadership, often funded by the commercial sector, is the key to success in an online marketing campaign. Websites should become **context providers** for exchange of information, promotion, employment and meeting places, along with sight, sound, story and game stimuli. Good destination content and detailed product and search facilities are also required as expectable features from website. Some interesting sites are www.TourismVancouver.com, www.experiencePA.com and www.PureNZ.com .

3.3 Online Referral Services and Market Segmentation: For post experience goods, official third party endorsement and trustworthy referrals may be relevant. Joining online referral services such as www.Ez2Plan.com, www.eGuilliver.com would generate more leads. Specialist online travel businesses for experience and post experience goods are typified by www.ifYouGolf.com, www.ifYouDive.com and www.YoungTravellers.com.

IV. Conclusions:

The market for the travel-related and hotel businesses as a whole has to re-focused from mass tourism to value enhancing travel propositions. Mass media marketing campaigns to increase tourist arrivals, which overutilize our natural resource and commoditize travel products and cultural tourism are not advocated. Instead, the Tourism Authority of Thailand (TAT) should, for instance, re-orient its policies away from a 'maximizing tourist arrivals and sale receipts' policy, which treats local natural resource and culture as commodity or search goods. In place of this low value mass marketing, it should develop a **more innovative, more value added' policy**. The substantial mass media marketing share of the TAT budget should be diverted to *knowledge based* research and development to *empower* travel related suppliers to produce higher value and sophisticated travel propositions for more affluent travelers

Four different types of goods – search goods, experience goods, post-experience goods and credence goods are presented from the perspective of information economics. The market failings produced by asymmetry of information and transaction costs are illustrated and corrective measures are suggested. The implications for both public policy and private business strategies have been presented. Some examples have been given on how to convert low value and low involvement products into high value and sophisticated involvement products. A more balanced approach between demand and capacity with more local participation is also desirable for sustainable tourism.

The internet is a combination of broadcasting and point-to-point communication, which can solve some degree of informational asymmetry. The promise it holds for resolving the deficiencies of dated strategies in tourism is only now beginning to be realized.

V. Reference:

Akerlof, G. [1970] 'The market for lemons: Quality uncertainty and the market mechanism.' *Quarterly Journal of Economics*, 84: 488-500.

Andersen, E. S and Kristian Philipsen [1998] "Credence goods in customer markets: exchanging 'pigs in poke s'", Dept. of Business Studies, Aalborg University, Denmark

Choi, Soon-Yong, Dale O. Stahl and Andrew B. Whinston [1997] 'The Economics of Electronic Commerce', Macmillan Technical Publishing, Indianapolis, ISBN 1-57870-014-0

Hara, T and Saltzman S. [2002] 'The economic impact of terrorism : the 9/11 aftermath', working paper, Cornell University.

Pine II, B J, and Gilmore, James H., [1999], *The Experience Economy*, [Harvard Business School Press](#), Boston, Mass.

Ryan, Peter and Pongsak Hoontrakul [2003*] 'Value Enhancement in a Thai Tourism Industry', working paper, Sasin of Chulalongkorn University and the Fiscal Policy Research Institute, Ministry of Finance, Thailand.

Shapiro, C and Varian H. R. [1997] 'Information Rule', discussion paper, U.C. Berkeley

----- [2002] 'Marketing Papers', no.1, 'Amazing Thailand by Tourism Authority of Thailand', edited by World Tourism Organization, Madrid, ISBN 92-844-0515-7

----- [2002] 'Tourism 2020 Vision', edited by World Tourism Organization, Madrid, Spain, vol. 7, ISBN 92-844-0466-5

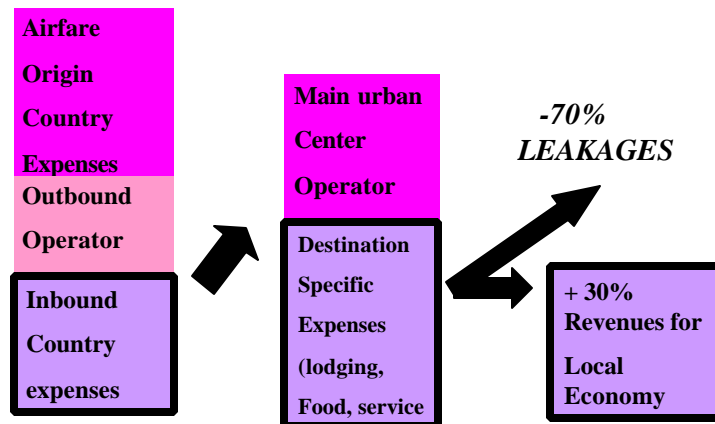
Available for free download soon at www.Pongsak.Hoontrakul.com and www.ThailandOutlook.com .

Table 1 : Four Types of Goods, Pre- & Post-Cost of Quality Detection

Post ± Cost of Quality Detection, Period	High, Long time	Post Experience Goods Ex : Health Travel, Eco-tourism, Vaccine..	Credence Goods Ex : Surgical Tour, Doctor..Retirement home
	Low, Short time	Search Goods Ex : Hotel Room, Cola«	Experience Goods Ex : Rayawadee, Aiyapura, Disney« MICE
		Low Pre- Cost	High Pre-Cost

Before Purchase or Pre±Cost of Quality Detection

Table 2: Inbound Tourism and Its Leakages



Source : www.UNeptide.org and http://www.publicsector.org/local_agenda_21and_you/WhileTravelling5Questions.html