CHAPTER 7

Price

Key concepts

The main concepts covered in the chapter are:

- Traditional methods of calculating price
- Strategic and tactical pricing policies
- State intervention in the setting of prices
- Differences in pricing issues.

Introduction

Pricing is clearly crucial to the successful marketing of any product or service. The prices that the organisation charges for its products and services must strike a balance between gaining acceptance with the target customers and making a profit for the organisation. Even for organisations that do not seek to make a profit, the pricing of products and services is the key to ensure uptake.

The decision to offer a product free to encourage uptake should however also be a conscious decision which is made by the management of the organisation in question.

Price is a key element in the marketing mix because for a profit-motivated organisation, the prices which are set relate directly to the total revenue and ultimately the profit made by the organisation.

Many features of leisure markets mean that pricing of their products and services is an extremely complex procedure.

This chapter will concentrate on the following issues:

- general pricing theory and the methods used for calculating prices;
- the use of pricing as a tactical and strategic weapon in the marketing process;

- the special nature of leisure organisations and the effect that this has on pricing policies;
- the international dimension to pricing policy.

General pricing theory and the methods used for calculating prices

The setting of prices for products and services will be influenced by the objectives of the organisation which is marketing them. The organisation may have the objective of gaining maximum turnover and profits which will result in a satisfactory return on investment for the shareholders. The organisation may be trying to build market share which will have an effect on the pricing levels. Some organisations, particularly in the public sector, are simply trying to encourage usage of their products and services by customers. This may result in the product or service being offered free of charge or at reduced rates. Whatever the strategy of the organisation is, clear pricing objectives should be established before price levels are set.

The key factors which determine pricing decisions have been summarised by Dibb et al. (2001). These factors have been summarised as:

- Pricing objectives
- Organisational and marketing objectives
- Channel member expectations
- Costs
- Legal and regulatory issues
- Competition.

Organisations should relate the prices set to the organisational land marketing objectives. The Formule 1 chain which is the budget chain of the French company Accor, for example, is priced so that it is seen to be of outstanding value for money. The prices are set at a reasonable level in relation to product quality. This will allow the company to develop this brand at the budget end of the market in line with their other brands.

Other organisational goals may include the desire to be the brand leader in the marketplace. This will usually be reflected in higher prices in the long term. An organisation may sustain a decrease in prices in the short term to try and gain market share in the long term. This strategy can be particularly relevant when an organisation is launching a new product or entering a new geographic market area.

Pricing objectives

The organisation should also have clear objectives in relation to their setting of prices. Organisations may have different objectives when prices are set. The organisation may have a requirement for a certain target return on investment. There may also be a requirement to achieve a certain sales volume and a particular market share. The organisation may also be looking for a period of rapid and sustained cash flow which can only be achieved by a temporary boost in sales.

For nonprofit making organisations, the objectives may be to encourage new users. This is often achieved by *differential pricing strategies* where different prices are charged for different market segments. Museums, for example, often charge a lower admission fee for students, senior citizens and the unemployed to try and encourage people from these market segments to visit the museum.

Costs

The setting of prices should incorporate a calculation of how much it takes the organisation to produce the product or service. If the company is profit-oriented, a margin will be added to the cost price to derive the selling price. An organisation can decide, however, to sell below cost price for a period of time. This is often referred to as a *tactical price reduction*. Tactical price reductions can be made, so that the competitor's prices are temporarily matched or undercut with the aim of increasing sales, generating cash flow and gaining market share.

Other marketing mix variables

Pricing decisions always have an interaction with the other elements of the marketing mix, namely promotion, distribution and product design. Consider the example of the luxury hotel room for which the organisation charges the customer a high price. This high price has to be reflected in other elements of the marketing mix. It is vital that the quality of the hotel service meets the expectations that the high price has generated in the minds of the customers. Price usually gives the customer the first indication of perceived product quality.

Distribution of the hotel room is likely to be via an exclusive distribution channel to reflect the high quality image and resulting high price. This may involve the use of a high quality marketing consortium, for example, where luxury hotels are grouped together for distribution and selling purposes.

The promotion of the hotel will have to reflect the quality and prices. The messages which are given in the promotion will have to be of an appropriate standard. A high level of personal service will probably be included as part of the promotional package. This example has shown that pricing of the product or service is inextricably linked to all the other marketing mix variables.

Channel member expectations

A marketer must consider the intermediaries in the distribution channel when pricing a product or service. The sale of luxury hotel rooms by a particular organisation, for example, may be carried out by an exclusive travel agency chain. This intermediary in the distribution channel will expect certain things from the hotel in relation to price.

The travel agency will have to make a profit in the form of a commission when the hotel rooms are sold. It will probably also require discount from the hotel, particularly if it sells a large number of rooms and obtains rapid payment from the customers. The agency will also require service support in the form of promotional materials and training. All of these items will cost the hotel money and they will have to be incorporated in the setting of the room rate and prices for other ancillary services.

Buyers' perceptions

The prices which are set for products and services must reflect the customers' perceptions in the target market.

It is important that the customer sees the link between the price charged and the product quality. In the tourism sector, for example, customers expect a high level of service and special features if a high price is being charged. This can be seen in the airline sector, where airlines charge high prices for first-class services.

In return, the customer expects excellent check-in and waiting facilities, extra comfort and room on the plane, and extra personal service and benefits such as free drinks. A speciality holiday company can also charge high prices if they are offering a higher level of service and individually tailored products.

The most important issue is whether the customer perceives that the price which they have paid represents good value for money and matches their quality perceptions.

Competition

Organisations which sell products and services in competitive markets try to win customers from rival competitive organisations. This can be achieved in one of two ways:

1. *Price competition* is the first method that can be used. It involves offering the product or service at a lower price than the price charged by the competition.
2. *Nonprice competition* involves the organisation trying to increase market share or sales by leaving the price of the product or service unchanged but persuading the target customers that their offering is superior and has advantages compared to the competition.

Whether an organisation uses price competition or nonprice competition depends on the state of the market. In a very competitive marketplace, the organisation is more likely to resort to intense price competition to sell their products and services.

In an oligopolistic market where there are few competitors, there is little to be gained from price competition and organisations tend to concentrate more on nonprice competition.

The UK package tour operators are a good example of a sector which has competed largely on the basis of price, to date. The focus in the past few years has been on price cutting to gain market share and the customer, for package holidays in the UK has come to expect substantial discounts. In an industry where operating margins can be as low as two per cent, spiralling discounts can be very damaging. The latest idea in this market is to try and compete more by nonprice methods rather than the damaging discounting methods. TUI, for example, is adopting a strategy of nonprice competition. This has involved the company in differentiation of identifiable products and the development of a clearer branding strategy which is reflected in the advertising campaigns.

Organisations can use a mix of price competition and nonprice competition for different market areas. *Selective discounting* can be a method which is used in service marketing to overcome the particular problems of perishability of services coupled with the burden of large fixed overheads. These ideas are explored in Figure 7.1.

A *seasonal discount* is often used by organisations marketing leisure products, to try and even out demand across the year. Hotels and airlines, for example, offer seasonal discounts in their slacker periods. Package holiday companies offer discounts in the form of free child places to encourage sales at quieter periods of the year.

Legal and regulatory issues

There may be legal and regulatory restrictions which control the ways in which an organisation fixes prices. An organisation such as a gallery or museum, for example, which is heavily subsidised by the government, may be pressurised to keep prices low to encourage visitors to come and visit. The state may also regulate prices which are charged by commercial organisations.

A 300-bedroom hotel

Target: 90% occupancy on weekdays (Monday–Friday)
: 20% occupancy on weekends

Current Sales: 70% occupancy on weekdays
: 10% occupancy on weekends

Hotel has large fixed overheads

Marketing solution

Week (Monday–Friday) sales	**Weekend sales**
• Nonprice competition	• Price competition
• Price competition e.g. conference discounts	• Selective discounting – weekend breaks – discount breaks for business travellers
• Intensive promotion	
• New distribution channels – central reservation system	• New distribution channels

The hotel uses a mix of price and nonprice competition to reach target. Selective discounting addresses problem of perishability.

Figure 7.1 Examples of pricing for a hotel

On a more general level, legal restrictions are often placed on the practice of price-fixing and collusion. The Monopolies and Mergers Commission in the UK, for example, looks at the likely effect on price and the possibility of price collusion when a merger or takeover is proposed. If this results in a significant reduction in competitiveness in the marketplace, then they may take action to prevent the merger or takeover occurring.

Different approaches to pricing

Organisations involved in the marketing of leisure products use different methods of calculation to set prices. Pricing methods fall into three main categories:

- Cost-oriented pricing;
- Demand-oriented pricing;
- Competition-oriented pricing.

Cost-oriented pricing

This is where the price of a product or service is calculated and a margin applied to derive a selling price. This is the simplest method of pricing and is often used by companies for calculating prices. It has the disadvantage of not taking into account the economic aspects of supply and demand and often does not relate to pricing objectives. The concepts of mark-up and gross profit margin are not used extensively in the leisure industries.

In *cost plus pricing* the seller's costs are calculated and the price is set by adding a specific amount which is often referred to as a margin.

Mark-up pricing is a commonly used method of pricing in retailing. The product's price is determined by adding a predetermined percentage of the cost of the item. Mark-ups obviously have to reflect the strategic vision regarding costs, risks and stock turnovers.

Demand-oriented pricing

This method allows for high prices when the demand is high and lower prices when the demand is low, regardless of the cost of the product or services. One example of this is London hotel accommodation which is much more expensive in the summer than in winter due to demand. Price for seats in football grounds are more expensive when a major game is played. Demand-oriented pricing allows an organisation to charge higher prices and therefore make higher profits as long as the buyers value the products above the cost price.

Competition-oriented pricing

The firm fixes the prices of the products and services in relation to the competitor's prices. This has the advantage of giving the organisation the opportunity to increase sales or market share.

In practice all three influences are often taken into account when settling prices. In the long term, organisations need to more than cover their costs if they are going to prosper. In doing this they can only go so far as competition and the prevailing strength of the market will allow.

Skimming and penetration pricing

Organisations use different methods of pricing when they are launching new products. If the organisation is launching a product which is fairly unique and therefore offers the customer a new experience, it can afford to operate a *skimming pricing policy*. This is where a high initial price is charged in the hope of gaining maximum profit at the early stages of the product's life.

A specialist tour operator can afford to charge higher prices for the unique service which it offers to the customer, particularly when new product development results in a holiday with unique features.

If the organisation, on the other hand, is trying to get maximum distribution for the product or service in the initial stages, it will probably price at a lower level to get maximum sales and market share. This method is commonly used in the marketing of FMCGs where rapid distribution stocking is essential for the success of the product. This is referred to as *penetration pricing*. The fierce price competition which the UK tour operators have operated over the past years is an example of this.

Discriminatory pricing

Organisations can often alter their prices charged to suit different customers, products, locations and times. Discriminatory pricing means that the organisation is selling a product or service at two or more prices, despite the fact that the product costs are the same. Discriminatory pricing is often used by organisations that are involved in the marketing of leisure products for a variety of reasons. Consider the examples which are shown in Table 7.1. Each of the organisations shown is using discriminatory pricing for different reasons.

Example	Pricing method	Reasons
Leisure centre	Customer segment-based	To encourage groups to take part in sporting activities To increase revenue in quiet periods
Theatre	Location-based	To encourage different customer groups into the theatre To get maximum revenue at each performance
Hotel	Time-based	To encourage 'off peak' visitors To cover high fixed overhead costs

Table 7.1 Discriminatory pricing examples

The leisure centre is trying to encourage groups in the community to take part in sports activities at the leisure centre. This may be profit motivated, in that the centre can at least recoup some of the costs of opening the centre during quiet periods. The managers of the leisure centre may also have a social aim of trying to encourage particular groups of people who do not currently engage in recreational activities to use the centre with the aim of increasing general health in the population as a whole.

The theatre will charge different prices for seats according to their particular location. This will enable the theatre to get maximum sales at any one performance and target different market segments.

Hotels also use discriminatory pricing, based on particular times. This will encourage off-peak visitors and help to contribute to the high fixed overheads costs.

The market must be segmentable if discriminatory pricing is going to be an effective strategy. Care should also be taken that discriminatory pricing does not lead to customer resentment. It should also be legal. The deregulation of the airline industry in most European countries has meant that discriminatory pricing has been used much more in this market.

Strategic and tactical pricing

Organisations in the leisure industry operate pricing policies at the strategic and tactical level. This is very much because the nature of the business means that prices have to be set a long way in advance so that brochures and guides can be published. This means that prices are determined early on in the planning of the marketing strategy. These pricing decisions will be based on the long-term view of corporate strategy, product positioning and value for money in the marketplace.

The fact that organisations, however, cannot stock services means that if the planned supply exceeds demand in the marketplace for whatever reason, the organisation must try to sell excess capacity. This means that the organisation has to resort to tactical pricing strategies often in the form of discriminatory pricing or discounting.

One of the best examples of tactical pricing techniques are the moves the UK-based package tour operator makes in response to a lack of demand. Last-minute highly discounted selling of package holidays in the UK to generate extra bookings has almost become the norm in the market. This has led analysts to worry that the long-term profitability of these package holiday companies will decline, because the customer has come to expect last-minute bargains and has therefore changed their purchasing habits. The only way out of the aggressive price discounting strategy it seems is to increasingly differentiate the product in the marketplace. The question is whether customers who are used to aggressive price discounting will accept this type of strategy.

The dumping of airline seats at heavily discounted prices is another good example of tactical pricing. The purchase of airline seats from newspapers, teletext services or bucket shops means that the customer can often get a substantial last-minute price reduction. This ensures that the airline fills the empty seats, which would otherwise represent lost revenue.

Hotels have also become skilled at operating last-minute tactical pricing methods to fill unoccupied rooms. The customer can often negotiate a substantial reduction on the rate if they ring the hotel during the evening that they want to stay.

This use of tactical pricing techniques means that pricing of leisure products is an extremely complex and difficult task, which requires a great deal of knowledge of the market, ongoing customer demand and trading conditions.

The special nature of leisure organisations and the effect it has on the pricing policy

We have already seen in this chapter that the fixing of prices for leisure organisations is a difficult task which involves strategic and tactical measures. This section will now consider the special nature of the organisations involved in the sector and the effect that this has on their pricing policies.

It was recognised by Cowell (1984) that the special characteristics of services means that prices are influenced. He grouped the impacts of these service characteristics into five categories which are summarised as follows:

1. Service perishability means that prices have to be adapted to meet fluctuating demands.
2. Customers can delay or postpone the use of services and may choose to perform them for themselves. This leads to keen competition between service providers.
3. Service intangibility has many price implications. The higher the material content of the service, the greater the tendency will be to standardise prices. Prices are often negotiated between buyer and seller.
4. Where services are homogenous, price will be highly competitive. The more unique a service is, the greater will be the discretion in pricing. Price will be an indicator of quality and reputation of the organisation.
5. The inseparability of the service from the person providing it places limits on the market that can be served. The degree of competition operating within these limits will influence the prices charged.

Adapted from Cowell (1984)

The characteristics of services, outlined by Cowell, indicate the importance of differentiating the service offered to gain competitive advantage and therefore give the organisation more discretion in pricing. This is particularly important in service markets where perishability is common. The special nature of travel and tourism products, in particular, has been considered by Middleton and Clarke (2001) and these characteristics are shown in Figure 7.2.

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

Figure 7.2 The characteristics of travel and tourism services that influence pricing (*Source*: Middleton and Clarke, 2001)

Figure 7.3 shows some of the difficulties in the fixing of prices for leisure products in general. Swarbrooke (1999) illustrated the difficulty of setting prices for a visitor attraction product with reference to six main features. These are summarised in Figure 7.3.

These features illustrate the complexities which are involved in the setting of prices for an attraction product, which relate both to the supply side and the demand side of the market. On the demand side, the customer often expects entrance to an attraction to be free. If the customer expects to pay, their total price for their time spent at the attraction may include a sum of nondiscretionary and discretionary spending. On the supply side, the attraction which is in the public sector may never have had to set market prices. This will often lead to an awareness of competition by the manager of the attraction. It may also lead to general complacency in the management team and an almost total ignorance of customer needs.

The main complication in leisure pricing is the role of *state ownership and regulation*. Some examples will illustrate this point as follows:

- The public sector owns, and subsidises, elements of the leisure product, namely museums, galleries, leisure centre and theatres, for example. Due to these *subsidies* and the social objectives of many of these public-sector bodies, a market price is not charged for the use of these products.

  These subsidies will usually hold down the price for all customers. In addition, concessions may also be made to allow people from disadvantaged sectors of society to pay an even lower price than other users for using these products, in the belief that they may otherwise not be able to use them. Such groups might include students, the elderly, disabled people and those who are unemployed. Concessions are offered either because it is thought morally wrong that such people should be deprived of the opportunity to use these products because they cannot afford the normal price, or

1. Many of the organisations that operate attractions in the public sector are subsidised and do not look for an economic rate of return.
2. The 'price' of buying the attraction product usually has three components, namely:
   - the direct cost of using the attraction, for example, the entrance charge at museums
   - the cost of extra discretionary purchases made by visitors such as meals and souvenirs
   - the cost of travelling to and from the attraction which can often be far greater than the direct cost of using the attraction.

   The many possible permutations of these three costs makes the pricing issue a very complex one.
3. Some attractions operate an all-inclusive price covering all on-site activities, facilities and services, while others charge on an item-by-item basis.
4. A number of attractions have no entrance or usage charge at all. For example, most natural attractions, some man-made attractions like churches and country parks, and many events are to all intents and purposes, free except for the cost of travelling to and from them.
5. The lack of perceived competition in some sectors of the attractions business and confusion over what exactly constitutes competition in other sectors makes it difficult to operate pricing based on what competitors are charging.
6. The prices charged for direct use of the product tend to vary depending on who the customer is, with discounts being offered to groups, and concessions being offered for families, the elderly, students, and those who are unemployed.

Figure 7.3 The features which explain the difficulty in fixing the price of the attraction product (*Source*: Swarbrooke, 1999)

because the product is thought to be so beneficial that everyone ought to be encouraged to use it. This is true of leisure centres, because of the health benefits they can bring, or the cultural enrichment that is thought to be gained from visiting an art gallery, for example.

- These state subsidies are often seen as unfair by private-sector providers, offering similar products, who have to make a profit to survive and who do not receive any state subsidies.

The decision on what should be subsidised and what should not be subsidised is a political choice, and is often based on historical factors and tradition. In the UK, for instance, opera is heavily subsidised while cinema receives much less subsidy. Swimming pools often receive large subsidies but local bingo clubs do not. Subsidy is often used to maintain the viability of operations. If consumers were asked to pay the true cost of providing the product, it would not be a viable activity.

Subsidies take a number of forms in leisure. This may be direct like those outlined above or indirect where, for example, the infrastructure in a tourist resort is paid for by local taxpayers. Visitors who use infrastructure such as roads and sewers pay nothing directly towards the cost of providing it; thus they receive an indirect subsidy from the local taxpayers.

The international dimension to pricing policy

Research by Porter (1986) showed that the pricing policy is one of the most difficult aspects of the marketing mix to standardise across national boundaries.

The different currencies and differences in the cost of living in different countries means that it is very difficult to standardise the price for leisure products across the world. Customers in different countries of Europe also have different perceptions of price levels linked to value for money. One example of this is the price which customers are prepared to pay for entrance to premier football matches. Prices in Spain and Italy for entrance to premier football grounds are relatively higher than the prices charged for first division grounds in the UK. This can be explained only by the fact that customer perception of price for football entrance is different in different countries.

The fanatical football supporter will pay any price to see their team. The idea that entrance charges to football grounds should be kept down, as a social service, is also a belief which has had an influence on the development of the market. State regulation can affect the price consumers pay in a number of ways, as follows:

- The levying of *tourist taxes* by which tourists can be asked to make a contribution towards the cost of providing some of the services they require. An example of such a tax is the Taxe de Séjour in France, which tends to be low at a few Euros per person per night.
- State controls on prices, for example in Greece where hotel prices are controlled by the State.
- The traditional regulations of air fares in many countries, through cooperation between the relevant national governments. This often has the effect of making prices higher than they would be if free competition was allowed on the routes. Governments have often used this as a way of protecting national ‘flag carrier’ airlines, which have usually been state owned. However, this artificial price-fixing is now being tackled, at least within the European Union, through the ‘liberalisation’ of air travel, which has been part of the creation of a single European market.

In addition, there are often factors that influence price differences between countries in leisure, notably:

- The widely *differing levels of economic development* found in countries affects both the cost of producing leisure products and the ability of people in different countries to be able to afford these products. For example, the lower level of economic development in Bulgaria, compared to Switzerland, is reflected in lower labour costs and hence lower prices for skiing holidays. At the same time, these same low levels of economic developments in Bulgaria, compared to the UK and Germany, make Bulgaria a cheap holiday destination for British and German tourists. However, in time, tourism may help to reduce these differential levels of economic development between these countries. Ironically this could lead to them becoming less attractive destinations for British and German tourists with a resultant loss of revenue.
- *Policies on taxation* and the differentials in those between governments. An example of this are sales taxes (VAT in the UK, TVA in France and so on). These vary dramatically around the world, both in terms of the rate at which they are levied and the range of goods on which they are levied. Some governments have seen such taxes as such a disincentive for tourism that they have cut them on tourist-related services such as hotels, as happened in recent years in Ireland. Within the European Union, there is a move towards harmonising sales taxes across the market states as part of the move towards a single European market.
- Given that leisure is a truly transnational industry, *currency-exchange rates* have an impact on prices. Fluctuations in exchange rates between generating countries and destination countries affect the price of hotel rooms, travel, meals and excursions. Currency fluctuations make financial planning by tour operators difficult and can lead

Pricing issue / Type of product and organisation	Market (M) or Subsidised (S) or Regulated (R) price	Method of pricing	Degree of tactical pricing to stimulate demand at less busy times (high, medium, low)	The emphasis is on discounting (D) for commercial reasons or the granting of concessions (C) for social reasons	Principal external bodies which are beneficiaries of a proportion of the income generated by the sale of the organisation's products in addition to suppliers	Opportunities for adding value	How similar are the pricing issues within the sector across Europe Very similar (V) Quite similar (Q)
State owned scheduled airline seat	M/R/S	Competitive cost plus	Medium	D	Taxes paid to government bodies. Commission paid to marketing intermediaries	Offering FITs	V
Hotel chain bedrooms	M (R in some countries)	Competitive cost plus	High	D	Taxes paid to government bodies. Commission paid to marketing intermediaries. Shareholders' dividends where appropriate	Restaurant meals and mini-bars	V
Tour operators FITs	M	Competitive cost plus	High	D	Taxes paid to government bodies. Commission paid to marketing intermediaries. Shareholders' dividends where appropriate. Financial bonds	Excursion programme	V

Theme parks	M	Competitive cost plus	Low	D	Taxes paid to government bodies. Shareholders' dividends where appropriate	Corporate hospitality catering	V
Private taxis	R (in most places in Europe)	Fixed price set by licensing authority – operator has no freedom to fix prices	Not applicable	Not applicable	Fees paid to licensing authority. Taxes paid to government bodies	Not applicable	V
Local municipality museum	S (for there may be no charge made)	Where there is a charge fixed, the price is to allow the organisation to operate within its budget	Low	C	Contribution to the overall costs of the municipality	Guided visits	Q
Public-sector theatre	S	The price is fixed to allow the organisation to operate within its budget	Medium	C	Fees paid in return for the right to use copyrighted material such as plays and music	Pre- and post-performance suppers	Q
National park	No direct charge is made for using a national park	Not applicable	Not applicable	Not applicable	Not applicable	Charges may be levied for the use of car parks, the sale of publications and guided tours	V

Table 7.2 Pricing of leisure products in Europe

to supplements being charged to customers if the fluctuations are substantial and to the detriment of the tour operators. Within the European Union, therefore the introduction of the Euro has had significant implications for the leisure industry in the twelve countries in which it currently operates.

One other interesting aspect of pricing seen in some poorer countries in Europe is *differential pricing*. In other words, situations where an identical product is sold at one price to local people and at another, usually higher price, to nonlocals. This system reflects a belief that these 'foreigners' are more affluent than the locals and can therefore afford the higher price. It may also, however, be a function of growing impatience with tourists on the part of local people, and a desire to make them pay higher prices, almost as a form of punishment.

Finally, we must note that in some cases, the direct price is charged for using a product in leisure, although indirect costs will be incurred by the user, for example, travel costs. Such products include entrance to a tourist destination such as a seaside resort, and some attractions such as public-sector museums, traditional facilities which take place in the street and natural phenomena like beaches.

Conclusion

Organisations involved in the marketing of leisure products find that pricing is a difficult and complex strategic task. Pricing is used both as a strategic and tactical weapon in the marketing process. Standardisation of prices across the world is very difficult due to differences both in the supply and demand side of the market. Different countries have different economic conditions and the level of competition in any particular market will vary from country to country.

The levels of state intervention in pricing policies varies in different countries. All of these supply side factors will influence the prices which organisations can charge for products. On the demand side, the presence of the Euro-consumer or global consumer has already been evaluated. Despite the growth of this target group, there are still marked differences in consumer perceptions in different countries to prices and perceived value for money. This is particularly noticeable in certain markets, for example, leisure products.

A summary of the pricing for different categories of product in the leisure industry in Europe is shown in Table 7.2. This shows the complexity of pricing for different kinds of organisation and the impacts the European dimension has on these processes.

Discussion points and essay questions

1. Critically evaluate the different methods of calculating prices. Outline what you believe would be the most appropriate method or methods for calculating the price of *one* of the following products.

   (i) A restaurant meal;
   (ii) An airline seat;
   (iii) A theatre ticket.

2. Discuss the ways in which the public-sector intervenes in the pricing process of the leisure sector in different countries.
3. Explain the differences between strategic pricing and tactical pricing in the leisure industry.

Exercise

You should select both a public- and a private-sector organisation within leisure.

For your chosen organisations, you should discover the method, or methods, of pricing they use and the factors they take into account when fixing their prices.

Finally, you should attempt to identify, and explain, differences in approaches adopted by your two chosen organisations.