



Tour Operator Discounts: A Slippery Slope

David Cogswell – June 17, 2016



When a market experiences a downturn, it's common for businesses to lower prices to spur demand. It's the basic principle of supply and demand.

In a marketplace as volatile and vulnerable to exterior shocks as the tour industry, the temptation to discount arises every time there is a shock to the market, such as a terrorist attack, an outbreak of disease or a war. But once you have lowered a price, how can you later ask more for the product? Some tour operators feel that discounting is dangerous to the integrity of a market.

What are the long-term effects on prices and on the viability of the market? Some tour operators see it as a very dangerous practice, the proverbial "slippery slope." But once introduced into a market, it becomes part of the market dynamics and is not easy to reverse.

Egypt's struggling tourism industry is an example of the destructive effect discounting can have on a market. When political turmoil scared travelers away from the destination, many tour operators lowered prices to stimulate demand. Years later the destination's tourism industry is still struggling, and prices are barely enough to sustain the industry.

“Discounting is nothing except a race to the bottom,” said Ashish Sanghrajka, president of Big Five Tours & Expeditions. “It means we are willing to do the same amount of work for half the cost. How logical is that?”

Once a company enters the slippery slope of discounting, it can have unintended consequences.

“First it changes your competition to those who are already players in the low-price market,” said Sanghrajka. “And unless you plan on changing your strategy to focus on volume, it is likely a lethal blow. The second is the irreparable damage to your brand. If your only trigger to increase sales is discounting, then why would anyone ever pay a fair price for your product ever again? For every 10 percent you discount, it will take five years to recoup that.”

Sanghrajka believes that a company that offers discounts for short-term gain will not come out as well in the long run as a company that maintains its price integrity.

“I guarantee you the company not discounting will come out ahead on the bottom line,” he said. “They may sell less volume, however they are protecting their profit line. Brand identity is everything, and in our industry we seem to confuse branding with transactional identity all the time.”

Probably the worst effect of discounting is that it trains consumers to wait for better prices.

“Discounting is a slippery slope and I am not a fan,” said Dan Austin, president of Austin Adventures. “The big challenge is that it conditions the customer to look and/or wait for a discount. On the rare occasion we want to add an incentive on a particular trip or booking, value add seems to be a much better practice, especially in the luxury and/or more affluent market. If you push discounting too hard you can get lumped into a category you may not really want to be in.

“Consumers just want a great trip at a fair price with good value. If you discount, you run the risk of setting the stage for a discount experience. Five star brands rarely discount,” Austin said. “You won't see Blue Light Specials at Neiman Marcus and we all know how well it has worked for Kmart (not).”

Discounting by one operator puts pressure on the competition to do the same. If it takes hold, it drives everyone's prices down. It also creates an expectation in consumers that promotes the strategy of waiting until prices come down to make a purchase.

“Travelers are super smart, especially in a market like ours where they are experienced travelers and they are aware of all kinds of travel,” said Steve Born, vice president of marketing, Globus family of brands. “They are very connected to the various offers and the ubiquity of all the push offers, so it didn't take long for them to realize that there is no consequence to them for waiting. There are better offers that come up.”

The Great Recession inspired a lot of discounting and the market has not fully recovered.

“A lot of suppliers have been trying to change the model since back in 2008 when the market had to react to the recession,” said Born. “The offers started getting stronger and stronger later and later in the year. The travel market overall corrected that in recent years. But this year we've gone a little bit backwards as an industry.”

Cutting prices can degrade the brand image, the perceived value of the product in the mind of the consumer.

“The biggest challenge we face as a tour operator is ensuring our customers’ expectations of the product are in line with the retail price,” said Vanessa Parrish, channel marketing manager for the Globus family of brands. “The danger in steep discounts is to avoid it being a reflection of our product, especially with Avalon Waterways — the current product experience we offer has never been better. Our goal is to ensure discounts are completely separated from our brand experience.”

Once the downward spiral takes hold, it is extremely hard to reverse. Practically the only thing that breaks the cycle is when demand once again exceeds supply. Fortunately for some tour operators, some products are reaching that point again.

“Many popular destinations in a given year, such as our Globus & Cosmos National Parks tours in 2016, (are in such high demand that) customers are learning they cannot wait until the last minute for a potential deal,” said Parrish. “Availability goes quickly on in-demand tour dates and destinations.”

One way to get the stimulating effect of lower prices but not suffer the long-term damage to product image and price integrity, is to couch the price reduction in such a way that it is not directly comparable to the previous price. This can be done by packaging air into the overall price so that price comparisons become apples to oranges, and it is not possible to see where the price for air stops and the price for the hotel begins.

“Goway is not known as a discounter and we don’t want to be,” said Bruce Hodge, founder and president, Goway Travel. “It is a fool’s game. Our philosophy is that if you regularly discount, agents and clients will only think of you as a discounter. We do have a Specials section on our website. Usually when we sell distressed inventory we disguise it (that is, include air fare in the price) and emphasize value rather than a discount.”

“We never ‘discount’ — however we do offer ‘savings,’” said John Stachnik, president of Mayflower Tours. “This is not just semantics — we truly feel it denigrates what we offer, to say it is not worth a certain amount.”

Introducing a “value added” special, such as free air fare, will give the customer a better deal without visibly offering a lower price that may later be difficult to raise. But some operators maintain that some kind of special offer resulting in lower prices for the value offered, are here to stay.

“Call them what you will — offering of discounts and savings has become a way of life in our industry,” said Stachnik. “Travelers expect some measure of giveback if they deem your product worthy of their interest.”

“Collette has looked at this from many angles,” said Amelia Sugerman, public relations manager at Collette. “Right now, we do offer some early booking bonuses as well as some hot deals. Hot deals are an interesting concept because they are absolutely never guaranteed and are largely based on inventory and timing. For instance, right now we have some last minute hot deals for summer travel. However, many guests who choose tour operators do so up to nine months in advance of a trip. We have found that rather than trying to get those last-minute savings deals, guests would prefer to have all the details of the trip booked and in order far in advance.”