

Research Horizons

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Package Tours Limit Tourist Satisfaction

Package tours can result in low tourist satisfaction even though they are economically advantageous, find the SHTM's Dr Markus Schuckert, Professor Haiyan Song, Dean Kaye Chon and a co-researcher in a recently published study. The researchers explain that dissatisfaction with package tours arises from the information asymmetry between tour operators and customers in emerging markets. Focusing on mainland Chinese outbound tours to Hong Kong, they show that this asymmetry is reduced once customers become more experienced, at which point they turn to independent travel and other types of tours.

Rise and Decline of Package Tours

Package tours first became popular in the West in the 1970s, note the researchers, because they offered accessible and affordable international travel. As independent travel was expensive at the time, such tours not only offered good value and convenience, but also reduced "tourists' uncertainties when exposed to distant and unfamiliar destinations". Although package tours made up a large share of the travel market in Europe

and the United States in the 1980s, the share eventually declined. The market model more recently shifted to Asia and the Pacific, but is now suffering the same fate here as tourists increasingly book package holidays online or travel independently.

Given that package tours are cost effective for tour operators and, in theory at least, offer tourists greater value than buying services separately, their decrease in popularity is not well understood. Yet, the researchers argue that consumer choice is restricted when products are bundled into a package – the tour operator decides the price for all the included services and the customer has to purchase the whole package. This might represent a good deal for customers who want all of those services, but most are only interested in some. Such customers, claim the researchers, may be "more willing to pay for a single product they value" than for the packaged bundle.

Initially, there is information asymmetry between the seller and the buyer. Travel services are difficult to evaluate before they are experienced because information about quality is only freely available through purchase and consumption. Customers

thus need to initially rely to a great extent on information from the tour operator, and only then from their own experience and information searching. The researchers propose that over time this asymmetry decreases. Fewer package tour customers make repeat purchases because they learn the value of the bundled services, which means they are able to make better decisions about subsequent purchases.

Visitor Reports Studied

To test their proposition, the researchers examined the relationship between tourist satisfaction, the market share of package tours and information asymmetry using information obtained from the Hong Kong Tourist Board's (HKTb's) Visitor Profile Reports. The Reports, they note, are "comprehensive and fairly consistent in profiling Chinese tourists" according to their social demographics, travel behaviour patterns and levels of satisfaction.

The HKTb information covered four service components: dining, hotels, sightseeing and shopping. To ensure that they could adequately identify the market share of

package tours, the researchers defined it as the proportion of tourists who purchased “inclusive package tours” rather than partial tours that only included hotel and transport, for instance. They then assessed travellers’ satisfaction with those tours as a proxy for the intention to return to Hong Kong.

The degree of information asymmetry was measured by travel frequency because travellers with previous travel experience are more aware of operators’ bundling strategies, which helps to reduce asymmetry. The researchers also examined the effects of several other factors, including the potential effects of specific events such as the handover of Hong Kong to China in 1997, the SARS outbreak in 2003 and the global financial crisis in 2008.

Declining Satisfaction

The HKBT information revealed that the market share of package tours increased from 50% in 1993 to 70% in 2001, but then fell dramatically until it was only 17% in 2013. The researchers observe that the market share of package tours had a consistently negative effect on tourists’ satisfaction with the four service components: as the market share decreased, tourists reported greater satisfaction with dining, hotels, sightseeing and shopping. That market share also “negatively affected tourists’ behavioural intention”, they write, and then conclude that “taking package tours actually discouraged tourists’ future travel to Hong Kong”.

The level of information asymmetry, indicated by the number of visits to Hong Kong, also influenced tourists’ satisfaction with dining and shopping, but not with hotels and sightseeing. From the researchers’ perspective, this indicates that “information does

indeed affect tourist satisfaction”: the more trips people take, the more informed and the more satisfied they become. The length of stay also had similar effects on satisfaction with dining and hotels, and again the researchers explain that the longer people stay, the more information they obtain, which equips them to make better purchase decisions in future. However, the other factors they examined, including the various one-off events, appeared to have only mild effects.

Consumption Hurt

The researchers suggest their findings imply that package tours “hurt consumption” because high information asymmetry and a mismatch with customers’ expectations mean that such tours offer “inherently lower satisfaction” than independent travel. They posit that legislation is needed to reduce this information symmetry, particularly in emerging markets where three factors contribute to customers’ informational disadvantage. First, tourists are less experienced and are thus more reliant on package tours. Second, tour operators fail to convey accurate information that would help tourists to make informed decisions. Third, tour operators’ behaviour and the dissemination of information to tourists are insufficiently regulated.

In the West, the researchers point out, associations were established several decades ago to regulate the package tour industry in response to various problems and quality issues particularly the misrepresentation of tour packages. Change has also occurred in the Chinese package tour market, in which significant problems with low quality recently led to the introduction of policies and regulations with the aim of “regulating tour operators’

behaviour at the national level”. However, the researchers note that effects would not yet have been evident in the information they collected.

Independent Travel Beckons

The association between inclusive package tours and low satisfaction that the researchers identify contradicts the conventional view that packages offer cheap and convenient forms of travel. It could well be that the newly introduced regulations in China may be too late to stop Chinese tourists from turning to independent travel instead. The researchers argue that as Chinese tourists have become more experienced and better informed, and now have easy access to online travel intermediaries, they can create their own package tours by “assembling different service components” that exactly match their preferences. It seems that the “right to create bundles” has transferred from tour operators to tourists.

POINTS TO NOTE

- Inclusive package tours are expected to offer cheap and convenient travel.
- Instead, they can reduce customer satisfaction and future demand.
- The problem is caused by information asymmetry between operators and tourists.
- Emerging markets need better regulation to ensure high quality tourism.

Chen, Yong, Schuckert, Markus, Song, Haiyan and Chon, Kaye. (2016). “Why Can Package Tours Hurt Tourists? Evidence from China’s Tourism Demand in Hong Kong. *Journal of Travel Research*, 55(4), pp. 427-439.