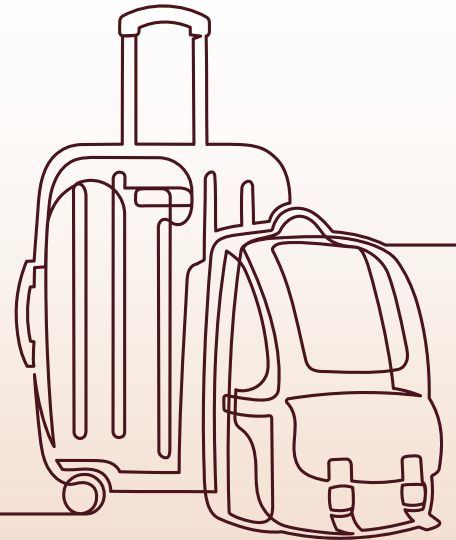


WHAT DO CONSUMERS VALUE IN TOURISM?



Ibrahim Zuhuree

Introduction

What do consumers value in tourism? This question is of practical interest to the tourism industry, policymakers, and economists interested in consumer behaviour. Tourists' choice of hotel to stay depends on hotel characteristics such as the number of rooms, facilities available and service quality. In addition, tourists also derive utility from the hotel's physical environment. For example, it is reasonable to assume that a tourist visiting the Maldives prefers a less polluted beach when choosing the island where the hotel is located. However, due to the limitation of quality data, there are no studies on how external

characteristics (e.g. quality of beach) and internal characteristics (e.g. quality of service) explains hotel room prices in the Maldives. Using primary data from 'booking.com' and a survey of guest houses in the Maldives, this article summarizes characteristics affecting guest houses room prices .

(see http://saruna.mnu.edu.mv/jspui/bitstream/123456789/1956/1/AN%20EMPIRICAL%20ANALYSIS%20ON%20INTERNATIONAL%20TOURIST%20FLOW%20AND%20HOTEL%20ROOM%20PRICES-THE%20CASE%20OF%20MALDIVES_izuhuree_saruna.pdf for in-depth details)

Data sources, variables and descriptive statistics

Studies on hotel prices in the Maldives are not available. Nevertheless, it is possible to collect microdata online such as room prices, hotel ratings, reviews and room choices by tourists visiting the Maldives. All the operational resorts and guest

Price heterogeneity within guest house segment varies from \$30 to \$450 with a mean value of \$108, while resorts price ranges from \$107 to \$8,000 with an average of \$873.

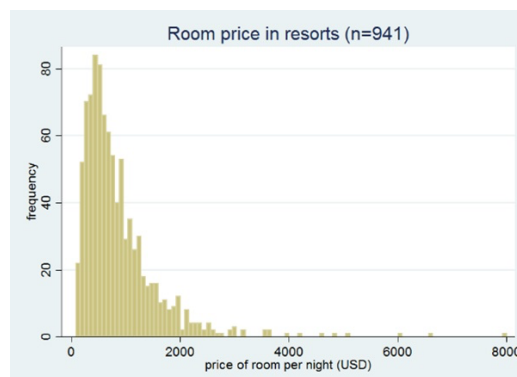
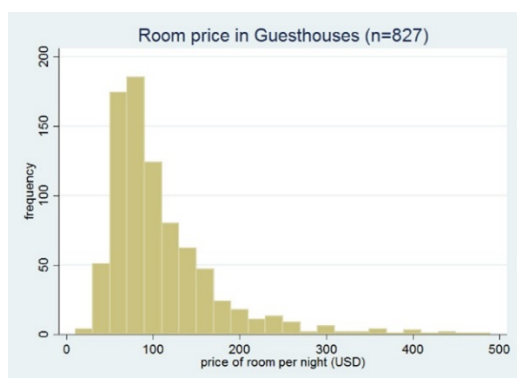
houses post their room prices online, either through their website or online travel agencies (OTAs). The analysis in this article also uses a field survey done in 2016 on the guest house segment in the Maldives, which provides information about the education and work experience of guest house owners/managers and the quality of the environment where the hotels are located.

One critical factor that can affect prices is the distance of each island from the international airport.

Price variable

The estimated frequency plots of the average price of hotel rooms in the guest house segment and resorts for July 2016 are shown in Figure 1. As expected, there is a considerable difference between the prices of resorts and guest houses. Price heterogeneity within guest house segment varies from \$30 to \$450 with a mean value of \$108, while resorts price ranges from \$107 to \$8,000 with an average of \$873.

Figure 1: Frequency plot of room price in guest house and resorts for July 2016

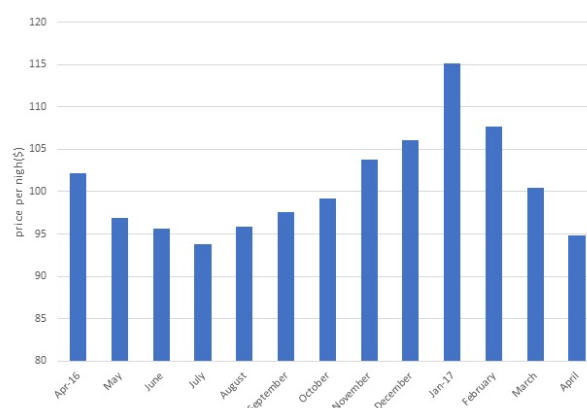


Source: Authors calculation based on online data from booking.com. To standardise the comparisons, the prices are for a one-night stay in a double room per couple.

Seasonality

Price heterogeneity of guest house rooms is due to many reasons, and one determining factor is seasonality. Tourist arrivals to the Maldives are seasonal, with May to July considered off-season due to the monsoon. Meanwhile, demand is high from December to March, coinciding with winter in Europe. Data confirms this. Figure 2 shows the mean price of hotel rooms from April 2016 to April 2017. The lowest price is \$ 93 in July, and the highest recorded price is \$115 in January

Figure 2: Mean Guesthouse price from April 2016 to April 2017



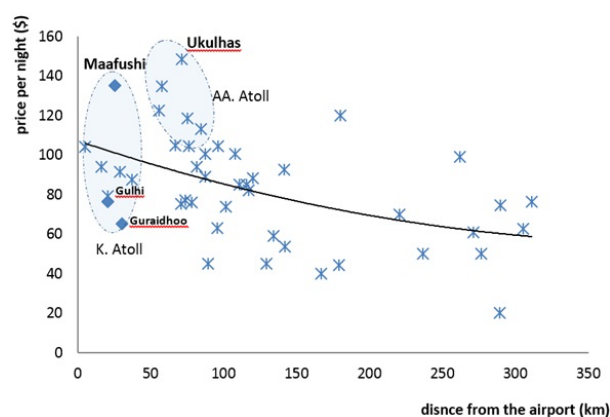
Source: Author’s calculations based on booking.com prices

Distance

In the Maldives, one critical factor that can affect prices is the distance of each island from the international airport. To reach the island where a guest house is located, tourists use sea or air transportation. Figure 3 shows the average price of hotel rooms in the islands and the distance from the airport.

The differences in prices are likely to represent some quality characteristics (e.g. quality of environment or services) of the hotels apart from seasonality or distance from the airport.

Figure 3. The average price of hotel rooms in the islands and the distance from the airport (n=42)



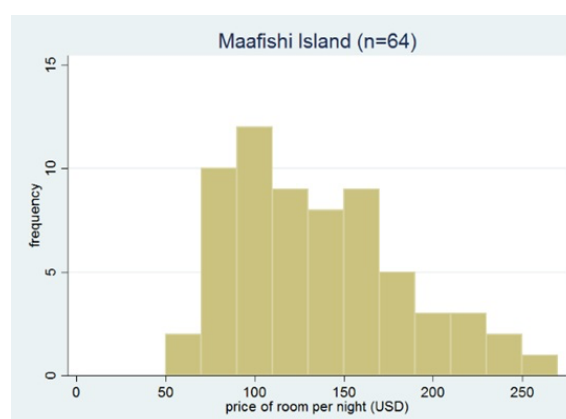
Source: Author’s calculations. Prices are for a one-night stay in a double room on a bed and breakfast basis.

Room rates vary from USD 30 to USD 150, and as expected, the room rates decrease with distance from the airport. However, there are interesting observations to report. For example, except for

Maafushi Island, prices for the rest of the islands in K. Atoll are below the trend line. Indeed, islands Gulhi and Guraidhoo marked in ‘diamond,’ are just minutes from Maafushi, but the price is 50% less than Maafushi. On the other hand, Ukulhas Island from AA. Atoll has the highest price. Could this higher price be associated with characteristics such as better waste management policy among the islands?

The Maldives mainly offers wanderlust (Sun, Sea, and Sand) tourism. The differences in prices are likely to represent some quality characteristics (e.g. quality of environment or services) of the hotels apart from seasonality or distance from the airport. Figure 4 shows hotel room prices in Maafushi after restricting the locations of the guest houses to Maafushi, so that island characteristics (environment) are fixed. Once again, we observe considerable heterogeneity in price variables, suggesting sorting behaviour by tourists based on their taste preference. The price difference may be due to private attributes (e.g. room standard), localised environmental

Figure 4. The average price of hotel rooms in Maafushi Island



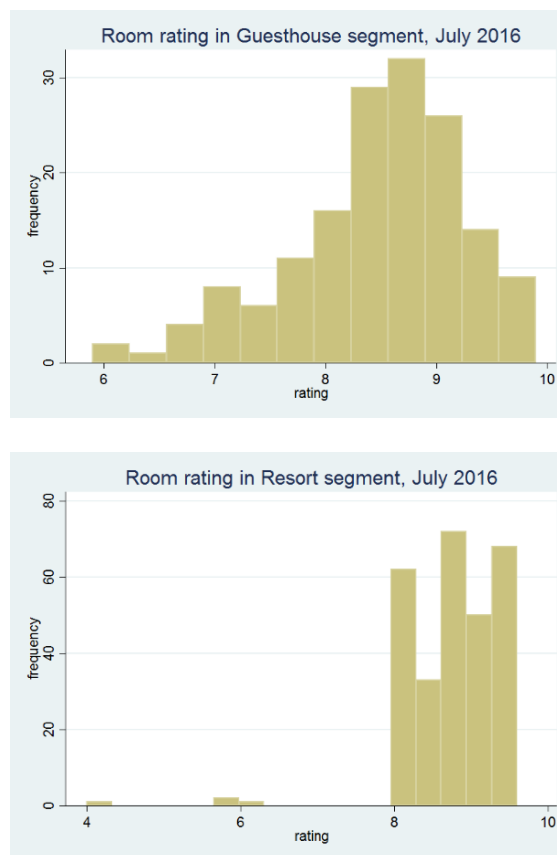
Guest rating

A field survey reveals that hotel managers dedicate considerable resources to maintain a high rating for the hotel. Hotel rating can indicate quality characteristics such as aesthetic or visual beauty that are not captured by the observed variables. Can we learn any objective information from the ratings and the corresponding prices?

At the island level, price increases with ratings, suggesting some descriptive evidence of tourists' willingness to pay for improved quality.

The estimated frequency plots of the average rating of hotel rooms in the guest house segment and resorts for July 2016 are shown in Figure 5. Data shows, in the guest house segment, ratings vary from 5.9 to 9.9, with a mean value of 8.48. In the case of resorts, except for a few outliers, rating ranges from 8 to 9.6 with an average value of 8.74. The ratings have more within-guest house variations than resorts, implying that resorts maintain minimum quality.

Figure 5: Average Rating of Hotel Rooms in the Guesthouse segment and Resorts.



Figures 6a and 6b show the price and guest rating of guest rooms, on a bed and breakfast (BB) basis for December 2016, in Maafushi Island, as well as our sample of 23 islands in the Maldives. At the island level, price increases with ratings, suggesting some descriptive evidence of tourists' willingness to pay for improved quality.



The price and guest rating of rooms

Figure 6a.

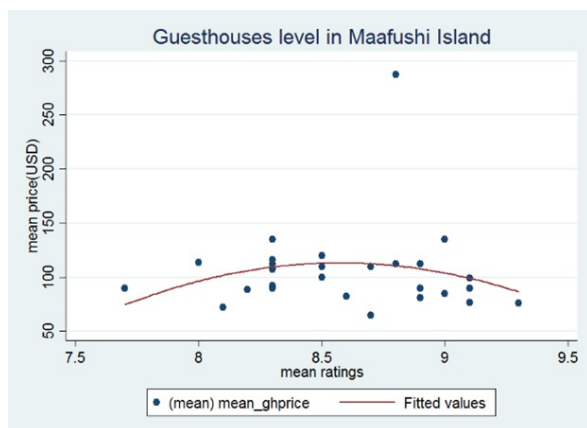
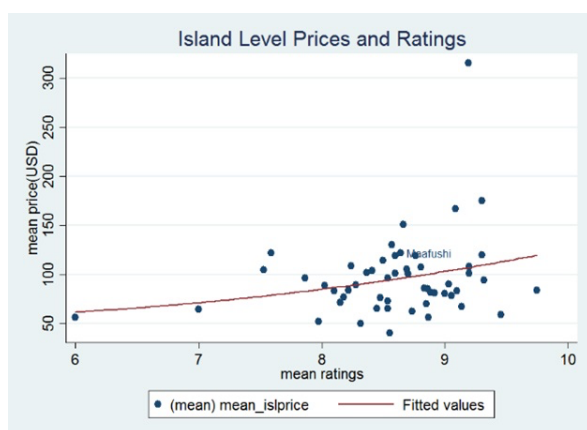


Figure 6b.



Source: Author's calculations

Other indicators for the quality are the manager's educational level and years of experience in the tourism industry.

Island level (public) characteristics and quality of service

Island level (public) characteristics include population, the length of the beach, number of households using unsafe waste management practices and guest

comments about beach cleanliness. An indicator for the quality of service is hard to obtain from our online data. However, each guest house lists the total number of foreign languages spoken by staff in the guest house. In the guest house segment, on average staff can speak two foreign languages. Learning a foreign language requires additional education or work experience, which is an indicator for the quality of service variable.

Other indicators for the quality are the manager's educational level and years of experience in the tourism industry. The guest house survey shows, on average managers have 9.6 years of tourism industry experience, and with 41%, 11% and 26% of managers having secondary, diploma and degree-level education. In addition, about 40% of the managers have received more than six months of tourism-related technical training.

Among the general characteristics of islands, the focus is on the manager's perception of waste management as a proxy to beach cleanliness. In the survey, 66% of managers indicated waste management practices on the island are negatively affecting guest house tourism in the islands. Guest reviews from 'booking.com' suggest that guests commenting negatively about beach cleanliness ranges from 5% to 30% in most islands, which is used to create a variable 'beach cleanliness index'.

Implicit price of quality characteristics

Beyond descriptive statistics, it is possible to run hedonic pricing regressions to estimate the implicit price of quality characteristics after controlling for hotel and location characteristics – Table 1.0 shows a sample regression table from the study.

Table 1: Estimated Models of Hedonic Room Prices and Rating in the Maldives

	Dependent variable: log (room price)			DV: log (room rating)	
	(1)	(2)	(3)	(4)	(5)
Public characteristics					
Number of households using unsafe waste disposal methods	-0.03743*** (0.00723)	-0.04676*** (0.00480)		0.02449 (0.04023)	
Beach cleanliness Index			0.01067* (0.00499)		0.01284 (0.01687)
Population (in 100)	-0.00082* (0.00032)	-0.00077** (0.00027)	-0.00126** (0.00044)	-0.00381** (0.00140)	-0.00437*** (0.00117)
Beach length (m)	0.00073*** (0.00008)	0.00074*** (0.00012)	0.00062* (0.00026)	0.00076 (0.00040)	0.00082* (0.00037)
Crowdedness (room per km ²)	-0.00010*** (0.00002)	-0.00010*** (0.00003)	-0.00010* (0.00004)	-0.00002 (0.00007)	-0.00006 (0.00005)
location characteristics					
Distance to airport (ln)	-0.05065 (0.04389)	-0.03387 (0.03208)	-0.12773** (0.03937)	-0.02834 (0.18097)	-0.10852 (0.15998)
Guesthouse in front of beach	0.19858*** (0.05680)		0.21082*** (0.05219)	0.17097 (0.09493)	0.16919 (0.09848)
Guesthouse distance to beach	-0.00024** (0.00009)	-0.00029** (0.00009)	-0.00026 (0.00021)	-0.00018 (0.00022)	-0.00013 (0.00023)
Hotel characteristics					
Number of rooms in Guesthouse	0.01343*** (0.00354)	0.01584*** (0.00393)	0.01321*** (0.00333)	-0.00238 (0.00608)	-0.00347 (0.00645)
Guesthouse has terrace	0.13646*** (0.03737)	0.17506*** (0.04116)	0.13479*** (0.03627)	-0.10909 (0.06904)	-0.11429 (0.07000)
Foreign language spoken by staff	0.03946* (0.01760)	0.04508* (0.01865)	0.04134* (0.01648)	-0.00874 (0.03714)	0.00763 (0.03155)

The micro-level regression analysis suggests hotels located in islands with long beaches can quote a higher price (refer to Table 1). As a result, additional revenue opportunities can tempt the private sector to lobby for more beach areas of the isle to be dedicated for tourism consumption. However, such allocations will potentially reduce the opportunity for local

Analysis suggests hotels located in islands with long beaches can quote a higher price.

Hotels can post a higher price by employing more skilled workers.

people to enjoy the beach. Moreover, coefficients in Table 1 imply that islands with less crowded beaches and better waste management practices are more appealing to tourists. Thus, hotels located in those islands post higher prices. In fact, marginal willingness to pay (MWTP) for a clean environment varies between USD 1.00 to 3.50.

The regression analysis also suggests the tourist's value industry experience and the minimum level of tourism-related training. This indicates that hotels can post a higher price by employing more skilled workers. Resorts often undertake in-house training or send their employees abroad for further studies. On the other hand, family businesses that run guest houses cannot provide quality training for their employees. Managers and staff often use YouTube to learn basic hospitality and tourism skills such as housekeeping. This is consistent with existing literature on skill shortages in the Maldives that identified the lack of skilled labour constraining investment decisions in the tourism sector (for example, see Asian Development Bank. (2015). Maldives overcoming the Challenges of a Small Island State Country Diagnostic Study. Asian Development Bank. Manila.

Retrieved from

<http://www.adb.org/sites/default/files/publication/172704/maldives-overcoming-challenges-small-island-state.pdf>.

Conclusion

Descriptive statistics together with regression analysis suggest that guest house managers will benefit from considering island-level and hotel-level characteristics as an integral part of their tourism product pricing. This is because knowing MWTP can allow managers to target consumers who associate price and quality accurately. Analysis suggests that the suppliers mainly capture the additional benefit of improving the quality of service or environment to increase price rather than growth in tourist's consumer surplus. Therefore, it is essential to promote joint initiatives between the island councils and the private sector to implement appropriate policies for managing public characteristics associated with guest house tourism. Likewise, employing capable people produce returns in the tourism industry, thus potentially generating more revenues for the government. Therefore, the government should enhance subsidised technical and vocational education targeted to the guest house sector.



ABOUT THE WRITER

Ibrahim Zuhuree works at the Ministry of Foreign Affairs of Maldives. Currently, he is the Deputy Permanent Representative of Maldives to the United Nations. Born in N. Holhudhoo in 1976, he graduated from the University of Western Australia in 2004, with B.Sc. in Mathematics and Physics. In 2007, he completed M.Sc. from Carnegie Mellon University, Adelaide, in Public Policy and Management. In 2017 he received PhD in advanced policy studies focusing on tourism economics from National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan. (phd14403@grips.ac.jp)