

EXPLORING THE OPPORTUNITY FOR PRICE BUNDLING OF THE ATTRACTIONS OF MYRTLE BEACH

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ABSTRACT

The Myrtle Beach area offers a broad assortment of entertainment and amusement options for visitors. This paper examines the possibility of price bundling of area attractions to offer a lower price to consumers. Two options are advanced: Targeted Selections and Broader Selections. Finally, implementation issues are addressed and discussed.

INTRODUCTION

This meeting of Southeast infORMS is taking place in Myrtle Beach, SC. The Grand Strand (a 60-mile stretch of beaches running from Little River, SC to Georgetown, SC) welcomes approximately 14 million visitors annually. Consistent with its positioning as a family destination, 62% of visitors are families that stay, on average, 5 days in the area [7]. During their stays, these visitors dine in 1,900 restaurants, stay in some 100,000 hotels and condo rooms, and enjoy 100+ golf courses, 46 mini-golf courses, 9 musical theaters, 6 major indoor or outdoor shopping areas, as well as a large and complex assortment of nationally known attractions and amusements.

The purpose of this manuscript is to explore the possibility of price bundling of the attractions in the Myrtle Beach tourism market. While individual firms have done price bundling of their company-owned attractions in the past, the idea of bundling across tourism operators will be advanced here. First, a review of the literature is provided, including a focus on price bundling in the tourism industry. Second, two approaches to price bundling are presented and an application to the Grand Strand market is provided. Finally, some structural challenges to a cross-operator price bundling package are discussed and possible solutions are recommended for consideration.

LITERATURE REVIEW

Price Bundling

Price bundling is the practice of offering two or more products or services for a single package price. Marketers have the option of employing a pure bundling strategy (i.e., the products and/or services are only available as a package) or a mixed bundling strategy (i.e., the consumer can choose between purchasing the products and/or services individually or as a package). For purposes of this discussion, the focus will largely be on mixed bundling. There are two forms of mixed bundling [3]:

1. **Mixed-leader bundling**, also referred to as tie-ins, involves offering a discounted price on an additional product or service when a specified product or service is purchased at the regular price.
2. **Mixed-joint bundling** involves offering a single, discounted price when multiple products and/or services are purchased simultaneously as a package.

The economic motivation behind bundling is to increase revenue and, ultimately, profitability. Bundling increases revenue by generating increased revenue per customer transaction and/or by increasing the frequency of transactions. For example, with pure bundling, customers may pay a higher price for a package of products and/or services or they may purchase a competitively priced product more frequently due to the positive perception of the price/value relationship generated as a result of the bundled offering. With mixed bundling, the customer may purchase additional products and services as components of a package that they may not have elected to purchase otherwise. This is accomplished through the transfer of the consumer surplus from the product or service highly valued by the consumer to the additional products and/or services included in the bundled offering. The consumer surplus represents the difference between the reservation price (i.e., the maximum price the customer is willing to pay for a product or service), and the actual price paid [3]. So, for example, the buyer would have paid \$20 for entry into a preferred attraction but elects to buy the bundle for \$30 thinking the added attractions for the marginal \$10 are well worth it, particularly given the ‘good deal’ s/he received on the primary entry fee.

Effective marketers must consider the potential impact of bundling on profitability. With mixed bundling, the impact on profitability may be more difficult to discern. Revenue gains may be generated due to cross selling, which occurs when the buyer of one or more products and/or services purchases additional products and/or services as a result of the bundled offering(s). Additionally, revenue can be increased by the attraction of new consumers who find the bundled approach appealing. However, these revenue gains may be partially offset by sales to existing customers that may have purchased the products and/or services individually (at a higher price point generating greater revenues) but now take advantage of the bundled discount. As a result, it is important for marketers to closely monitor and estimate the cost of cannibalization that may occur as a result of a mixed bundling strategy [3].

It should be noted that a pure bundle approach may negatively impact short-term profitability, but enhance profitability in the long run due to increased customer loyalty and retention. In addition, if a firm’s competitors choose to employ pure bundling strategies, it may become necessary for a firm to offer a comparable package of products and/or services to remain competitive [3].

Price Bundling in the Tourism Industry

Price bundling frequently occurs in the hospitality, travel, and tourism industry. Perhaps the most basic and frequent form of bundling occurs when a firm provides a combination of its own products and/or services as a package available to the consumer at a competitive price. For instance, a select-service hotel includes a ‘complimentary’ breakfast to each overnight hotel guest (i.e., pure bundling), or a fast-food restaurant provides a ‘value meal’ that includes fries and a drink along with a sandwich (i.e., mixed joint bundling). The bundling of tourist attractions within a single destination, which are operated by a variety of organizations however, is much more complex than creating value meals by a single restaurant company. Consequently, previous research related to the sale of travel packages through Online Travel Companies (or, OTCs) such as Expedia, Travelocity, and Priceline, may more closely parallel the bundling of tourism attractions by third-parties.

The online exchange of travel products and services has continued to grow over the past decade with the Expedia (an OTC) reporting that, in 2010, OTCs controlled fifty-four (54%) of all travel sales in the United States and thirty-eight (38%) of revenue share in the U.S., Europe, and Asian-Pacific regions combined [2]. Online Travel Companies attempt to lure travelers to their websites with the promise of substantial savings coupled with the convenience of one-stop shopping since all components of the vacation experience can often be booked as a single package. Research indicates that the purchase of bundled travel packages through OTCs, as opposed to purchasing the package components separately from the individual service providers, may provide savings to the consumer, with higher level of savings

occurring when high quality hotels (four-stars and above), rather than lower quality hotels (one-to-three-stars) are included in the travel package [4].

TWO APPROACHES TO PRICE BUNDLING FOR THE TOURISM MARKET

CityPASS and Smart Destinations, Inc. are two companies that currently provide discounted access to multiple attractions, utilizing a mixed—joint bundle format, in multiple major cities located throughout the United States and Canada. For comparison, an overview of these two operators is provided below.

Targeted Selection Option: CityPASS

CityPASS is a privately-owned company that offers bundled pricing on a small or targeted list of attractions in 11 major U.S. and Canadian cities. CityPASS identifies the top attractions in a market and then offers visitors a chance to visit all of these targeted attractions (4-7 attractions per city) for low price. Buyers typically save approximately 50% off of separately-purchased admission [1]. Currently, the CityPASS program is available in the following markets:

1. Atlanta
2. Boston
3. Chicago
4. Hollywood
5. Houston
6. New York
7. Philadelphia
8. San Francisco
9. Seattle
10. Southern California
11. Toronto

Broader Selection Option: Smart Destination (Go XYZ Cards)

Smart Destinations, Inc. offers bundled pricing on a larger assortment of attractions in 9 major U.S. cities. Unlike CityPASS which offers a smaller-but—targeted list of attractions per city, Smart Destinations offers a much larger list of attractions for one fee. Buyers can then choose the specific attractions they visit. Consumers typically save approximately 50% off of separately-purchased admission [6]. Currently, the Smart Destinations program is available in the following markets:

1. Boston
2. Chicago
3. Los Angeles
4. Miami
5. Orlando
6. San Diego
7. New York
8. Oahu
9. San Francisco

Table One provides an overview of the CityPass and Smart Destination programs for Boston and Chicago to illustrate the differences in their respective approaches.

Table One – CityPass and Smart Destination Programs for Boston and Chicago

CityPass Program		Smart Destination Program	
Inclusions	Price	Inclusions	Price
<p>BOSTON</p> <ol style="list-style-type: none"> 1. New England Aquarium 2. Museum of Fine Arts, Boston 3. Museum of Science 4. Skywalk Observatory 5. Harvard Museum of Natural History OR Revolutionary Boston at the Old State House 	<p>Adult = \$46 Child = \$29 (3-11) Cost if Purchased Separately: Adult = \$90 Child = \$57</p> <p>Estimated savings of 49% Pass is valid for 9 days after initial activation.</p>	<p>More than 58 attractions included. The TOP TEN highlighted attractions are:</p> <ol style="list-style-type: none"> 1. New England Aquarium 2. Boston Duck Tour (original) 3. USS Constitution Cruise 4. Museum of Science 5. Fenway Park Tour 6. Paul Revere House 7. Freedom Trail® Walking Tour 8. Skywalk Observatory 9. Plimoth Plantation 10. Hop on/Hop Off Beantown Trolley 	<p><u>1-Day</u> Adult = \$59.99 Child = \$39.99</p> <p><u>2-Day</u> Adult = \$79.99 Child = \$57.99</p> <p><u>3-Day</u> Adult = \$119.99 Child = \$93.99</p> <p><u>5-Day</u> Adult = \$164.99 Child = \$109.99</p> <p><u>7-Day</u> Adult = \$194.99 Child = \$144.99</p> <p>Save up to 55% over regular admission rates.</p>
<p>CHICAGO</p> <ol style="list-style-type: none"> 1. Shedd Aquarium 2. The Field Museum 3. Skydeck Chicago 4. Adler Planetarium OR Art Institute of Chicago 5. John Hancock Observatory OR Museum of Science and Industry 	<p>Adult = \$84 Child = \$69 (3-11)</p> <p>Cost if Purchased Separately: Adult = \$158 Child = \$136</p> <p>Estimated savings of 52% Pass is valid for 9 days after initial activation.</p>	<p>More than 26 attractions included. The TOP TEN highlighted attractions are:</p> <ol style="list-style-type: none"> 1. Shedd Aquarium 2. SkyDeck Chicago - Willis Tower 3. Lake Cruise by Shoreline 4. Navy Pier - Metropolitan Pier & Exposition Authority 5. Grand Tour by Gray Line 6. Museum of Science and Industry Plus Omnimax 7. John Hancock Observatory 8. Adler Planetarium 9. The Field Museum 10. Art Institute of Chicago 	<p><u>1-Day</u> Adult = \$71.99 Child = \$52.99</p> <p><u>2-Day</u> Adult = \$104.99 Child = \$74.99</p> <p><u>3-Day</u> Adult = \$134.99 Child = \$99.99</p> <p><u>5-Day</u> Adult = \$159.99 Child = \$119.99</p> <p><u>7-Day</u> Adult = \$179.99 Child = \$139.99</p> <p>Save up to 55% over regular admission rates.</p>

Sources: [1, 6]

TWO PRICE BUNDLING MODELS FOR THE GRAND STRAND MARKET

Targeted Selection (The CityPASS Model)

The Myrtle Beach area contains a great diversity of attractions and amusements. Using a targeted selection strategy, specific options must be identified. US News & World Report, for example, lists the following TOP TEN Best Things to Do in Myrtle Beach [8].

1. Myrtle Beach Beachfront (Free)
2. Mt. Atlanticus Miniature Golf
3. The Carolina Opry
4. Myrtle Beach State Park
5. Ripley's Aquarium
6. Alabama Theatre
7. Legends Golf Club
8. Family Kingdom Amusement Park
9. Myrtle Waves Water Park
10. NASCAR SpeedPark

The above list is not meant to advocate a CityPASS portfolio with these specific attractions. Rather, the intent is to illustrate the application of the targeted selections option. The presence of the Beach in Myrtle Beach is noteworthy. The area boasts of 60-miles of white sandy beaches that are free for all to enjoy. The beaches draw visitors to the community. It can be argued the beach represents a public good that is embedded in the product offering of all marketers in the area. However, all marketers compete with the consumer option to spend no money while having a lazy day sitting on the beach. So, the public good draws visitors to the area while concurrently presented very formidable competition to other attractions [5].

Broader Selection (The Smart Destinations Model)

Following the example of the Go Orlando Card (as Orlando is a similar family-destination filled with similar non-theme-park attractions), buyers would pay one price for admission to a broad cross-section of the entertainment portfolio of the area. The entire portfolio could be offered for one total price. And, if desired, some forced choice could be offered. A few examples are listed below:

- Pick one Dinner Theater Show: Pirates Voyage Dinner Theater OR Medieval Times.
- Pick one water park: Myrtle Waves OR Wild Water and Wheels.
- Pick two musical theater shows: Carolina Opry, Alabama Theater One Show, or Palace Theater, or Legends in Concert.
- Pick up to five rounds of Miniature Golf from an approved list of courses.
- Pick one round of golf from an approved list of courses.

Table Two provides an overview of the Go Orlando Card for illustration.

Table Two – Go Orlando Card

Inclusions on Go Orlando Card	Cost of Go Orlando Card	Projected Savings to Consumers
<p>More than 48 attractions included. The TOP TEN highlighted attractions are:</p> <ol style="list-style-type: none"> 1. Wonderworks General Admission 2. Gatorland: The Alligator Capital of the World 3. Titanic: The Experience 4. Boggy Creek Airboats Scenic Nature Tour 5. Daytona International Speedway All Access Tour 6. Fun Spot Action Park 7. The Haunted Grimm House 8. Kennedy Space Center Visitor Complex 2 Day Admission 9. Ripley's Believe It Or Not! Odditorium 10. Arabian Nights Dinner Theater 	<p><u>1-Day</u> Adult = \$79.99 Child = \$69.99</p> <p><u>2-Day</u> Adult = \$109.99 Child = \$87.99</p> <p><u>3-Day</u> Adult = \$184.99 Child = \$142.99</p> <p><u>5-Day</u> Adult = \$234.99 Child = \$182.99</p> <p><u>7-Day</u> Adult = \$274.99 Child = \$219.99</p>	<p>Save up to 50% over regular admission rates.</p>

Source: [6]

Using the same pricing as the Go Orlando card, the price for a family of four (2 adults, 2 children) to attend all included area attractions for 3-, 5-, and 7-days are provided below:

- 3-day = \$656
- 5-day = \$836
- 7-day = \$990

Under this approach, families would have certainly of the cost of the entertainment for their family vacation by buying the bundle. And, these same families may visit a broader cross-section of the portfolio of attractions given it was on in their pre-purchased list of options. And, as noted in the literature review, the likelihood of these ‘add-on’ visits may be increased as the consumer ‘spends’ the consumer surplus realized.

STRUCTURAL CHALLENGES TO IMPLEMENTATION

The Myrtle Beach tourism market consists of a large number of operators who each operate a single- or small-number of attractions. And, new attractions have been added recently (WonderWorks, Myrtle Beach Sky Wheel, and others) while and several others have undergone major renovations or theme changes (such as the former Dixie Stampede to the now Pirates Voyage Fun, Feast, and Adventure). This alone suggests that investors believe the market is very attractive for further development. The increase in entertainment options may increase the total visitors to the region, thus providing for increases in

profitability. If, on the other hand, the number of visitors remains constant, there are more operators competing for the same entertainment dollar and could push down unit profitability.

It is possible that a well-designed price bundling plan may bring more visitors to the region. However, a poorly designed program may result in operators serving the same number of guests but realizing lower total revenue to do so. And, any bundling plan advanced will require independent operators to achieve a high level of trust and cooperation to ensure the success of the program. Outlined below is a brief discussion of the key challenges to establishing a mixed-joint bundle of Myrtle Beach attractions as well as some recommended strategies to (hopefully) overcome them.

Challenge #1: The Business Model of the Bundler

A CityPASS or Smart Destinations, Inc. (Go Myrtle Beach) approach to establishing a mixed-joint bundle of Myrtle Beach attractions typically involves the vendor, often referred to as an aggregator, to negotiate deep discounts, often of fifty percent (50%) or more, on tickets to the various attractions. In many cases, the aggregator may also negotiate access to these tickets, particularly for high demand attractions which may include a specific number of tickets for specific dates and/or last ticket availability. The aggregator collects payment for the bundle of services directly from the customer at the retail price of the bundle and remits payment to the vendors following actual consumption of the services. The aggregator retains the margin, or the difference between the retail price collected and the discounted prices paid to the service providers, as well as any package breakage. In this case, the breakage would be the aggregator takes in money for visits to attractions that are never visited. So, the aggregator pockets this amount.

The challenge with this business model is the deep discounts that must be offered by the participating attractions to participate in the bundle. Many Myrtle Beach attractions are small, local, and/or family businesses that operate on modest profit margins. Consequently, many of these firms may not be able or willing to offer the deep discounts required to participate in such bundles.

Possible Solution: Use of a Not-for-Profit Bundler such as a trade association to perform the bundling function (and sell the passes).

Challenge #2: Myrtle Beach as a Beach and Golfing Destination

The top tourist attraction in Myrtle Beach is the beach, which has no access fee. In addition, many of the Spring and Fall visitors, in particular, arrive to golf on the more than one-hundred (100) golf courses in the area. Consequently, many tourists may plan to spend a major portion of their visit to the area on the beach or golf course and may be reluctant to invest a significant amount of their vacation budget on an attractions pass. Obviously, Myrtle Beach tourism attractions see increased business volumes when inclement weather moves into the area. As a result, area attractions, particularly attractions with operating hours in the morning and/or afternoon, may be less enthusiastic about redeeming deeply discounted passes on rainy or low temperature days.

Possible Solution: Use of Variable Compensation to participating attractions depending upon the timing of redemption or visitation by the pass holder.

Challenge #3: Seasonal Demand of Myrtle Beach

Myrtle Beach is a seasonal market with a peak season that runs from Memorial Day weekend to Labor Day weekend. The shoulder seasons, which are the peak golf seasons, run from mid-February through May and September through mid-November, with the off-season running from mid-November through mid-February. Demand for the various attractions varies by the season due to the changing demographics and psychographics of the Myrtle Beach visitor. Many of the attractions experience overwhelming demand from mid-June through early August and lagging attendance the rest of the year. One strategy

has been the use of local discounts offered during these non-peak periods of demand. So, these attractions may be more willing to participate in a bundle during their non-peak season and would rather opt-out during the season (when, assumedly, they have adequate demand).

Possible Solution: Adjust the portfolio or participating attractions based on season of year (and concurrent aggregated demand).

Challenge #4: Variation in Cost Structures of Participant Firms in the Bundle

The various Myrtle Beach attractions have considerably different cost structures and ability or willingness to discount. For example, there is minimal incremental cost associated with a musical theater (Carolina Opry, Alabama Theater, Palace Theater, and others) other than guest ticketing and entry, exit, and services. In addition, there is a wide variety of price points for attractions ranging from \$10 to over \$50 per person. High demand attractions, such as the Pirates Voyage, may not be willing to discount, particularly during the peak tourist season.

Possible Solution: Direct consumer choices to ensure broader visitation of attractions.

Challenge #5: Calculating the Impact on Profitability

One challenge that marketers face when implementing discounting programs in an effort to increase revenue is to calculate the cost of cannibalized sales. In this case, the trading of a full-fare paying guest for discounted-fare guest. Absent the bundle, would consumers have been willing to pay the full retail price of the attraction? While service providers will be fully aware of the number of attraction passes that are redeemed at their specific location, it may be more difficult to determine whether this represents incremental or new business or if the attraction is discounting business that it may have received had the business not elected to participate in the attractions pass program.

Possible Solution: Appoint a trusted 3rd party facilitator such as local University or Foundation.

SUMMARY AND CONCLUSIONS

Price bundling has been an important part of the Myrtle Beach market for some time as hotels have worked cooperatively with local golf courses and Myrtle Beach Golf Holiday to merchandise golf packages and attract out-of-town guests. And, owners of related attractions (Ripley's, Burroughs and Chapin, etc.) have self-bundled their own attractions. What is advanced here is the potential to bundle separately-owned attractions into an attractive package for the nearly 14 million visitors who vacation in Myrtle Beach each year. It represents an interesting opportunity with some possible impediments to its implementation. In these pages, we attempted to provide frameworks for discussions by local leaders.

As visitors to the Southeast infORMS meetings in Myrtle Beach, we will be able to watch the market to see if such price bundling programs are developed and in what form it is done. That will be the subject of a future Southeast infORMS presented. Stay tuned!

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