



## Article Title

Price bundling and travel product pricing practices used by online channels of distribution

## Citation

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## Abstract

Price bundling is one of the most prevalent marketing practices in many industries, including hospitality and travel. Virtually all types of firms in the hospitality and travel industry, from suppliers such as hotels and airlines to intermediaries such as travel agents, are encouraging customers to purchase travel “packages” rather than a single component of travel to save money and streamline the purchasing process. The purpose of this research is to determine whether the practice of price bundling by online travel agents results in actual monetary savings for consumers (i.e., lower prices) relative to the prices charged by individual service providers (i.e., hotels and airlines) through their own online Web sites. The results indicate that there are monetary savings in the form of lower prices realized by consumers who purchase bundled offerings from online travel agents, and there is an interaction effect between channel and hotel class.

## Methods

The sample for this study consists of the observed prices of 240 travel bundles, 120 from Expedia and 120 from Travelocity (the two leaders in market share according to Mintel 2005).

## Results

The general linear model (GLM) in SPSS was used to analyze the data with total price for the bundle, or the individual components, as the dependent variable and channel of distribution, time of booking, hotel class, and destination as the independent variables. The main effects for each of the four treatments appear in table 1. All of the differences between categories within each treatment group were significant at the .05 level except for destination ( $F = 0.000$ ,  $p = .986$ ). The main focus of this study is the channel of distribution for the travel products. The mean prices charged by online travel agents were lower than the prices charged by the individual service providers for the separate components of the bundle (\$1,269 and \$1,417, respectively). The prices for the travel product that included hotels with four or more stars were higher than those for hotels with one to three stars (\$1,940 and \$799, respectively). Finally, the prices for the travel products decreased as the time of booking got closer: 6 months out was \$1,499, 3 months out was \$1,386, and 1 month out was \$1,146.

## Conclusion

The results of this study support the notion that online travel agents save consumers money when they buy multiple components of the travel product together rather than purchase the

travel components separately from individual service providers (i.e., hotel and airline Web sites). It is not surprising that the overall price levels were significantly higher for hotels with four or more stars relative to hotels with one to three stars. This is mainly because of the fact that there is a perceived price–quality relationship for hotel services, and the star ratings are based partly on the price level of the hotel. Other factors such as the level of amenities and location come into play as well, but the price level is closely associated with the level of service (i.e., full service vs. limited service) offered by the hotel. Also, there was a significant interaction effect between the channel of distribution and the hotel class. The price difference, and resulting savings (both absolute and percentage), increased as the hotel class increased. In other words, the best deals for travel bundles offered by online travel agents include hotels with four or more stars.