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# The effect of price bundling on tourists' extra expenditure: a mental budget approach

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**ABSTRACT**
This is a preliminary study that investigates the effect of the expansion of a bundled holiday package on tourists' extra expenditure. From a theoretical perspective, tourists acquiring packaged holidays tend to incur extra expenditure while on vacation and, in turn, to set a mental budget to avoid overspending. Findings from a quasi-experiment show that tourists are setting the same mental budget for extra expenditure regardless of what is included in the bundle on offer. Resort managers should carefully design mixed-product bundled holiday packages, leaving aside some attractive but non-essential options.

## 1. Introduction and theoretical background

Bundled pricing has become progressively common in the tourism industries, due to the increase in popularity of all-inclusive holiday packages that contain combined overnight stays, restaurant meals, hotel amenities, and travels (Zopiatis et al., 2020). The basis of an all-inclusive holiday is a single-priced package that virtually comprises all the services needed during the holiday, reducing the uncertainty of the final cost of vacation (Alegre & Pou, 2008). However, tourists acquiring packaged holidays tend to incur extra expenditure while on vacation (Kuokkanen, 2016). This additional spending at the destination, which includes complimentary items that are not *part of the bundle,* and particularly its relation to a packaged holiday bundle, has not been explored previously.

Through a quasi-experiment conducted over a two-year period in three seaside resorts, this study represents a unique attempt to analyse the effect of the expansion of a bundled holiday package on tourists' extra expenditure.

When a new item previously paid extra is added to a bundle allowing for its unlimited consumption, the extra expenditure of a rational consumer should decrease by the amount that was previously paid extra (Cornish & Clarke, 1986). Accordingly, we formulate the following hypothesis:

*Hypothesis 1*: When a new item is added to a bundle, extra expenditure diminishes by the amount previously spent for the consumption of this item.

On the other hand, the literature on consumer research demonstrates that customers tend to under consume items included in the bundle (Soman & Gourville, 2001).

Tourists' extra expenditures, such as spending on complementary items that are not *part of the bundle,* are categorized as exceptional expenses of smaller magnitude compared to the overall holiday budget, and in turn, are likely prone to be underestimated and to be left unnoticed (Sussman & Alter, 2012). To prevent overspending, consumers tend to set mental budgets that limit their spending within defined categories (Stilley et al., 2010). Initially developed by Thaler

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(1985), Mental Budget Theory is grounded on Prospect Theory (Kahneman & Tversky, 1979), and it serves as a self-regulatory mechanism in which spending within a particular category is allowed until a specific limit is reached.

It is reasonable to assume that tourists set separate mental budgets for pre-trip and in-destination spending (Legohérel & Wong, 2006). Given that in-destination extra expenditure is perceived as a different mental account, this budget is set separately, and it is not influenced by the change in the bundle on offer and its price. Thus, we formulate the following hypothesis:

> *Hypothesis 2*: Tourists set a similar mental budget for extra expenditure, regardless of what is included in the bundle on offer.

## 2. Data and method

Data were obtained through a quasi-experiment, conducted in three large-sized Italian seaside resorts over the summer seasons 2018 and 2019.

The resort package traditionally consisted of lodging and full board (*resort rate*), plus a range of resort services (*resort mandatory fee €5 per day per person > 3 years*). The holiday package had to be paid in advance. All bar expenses were to be paid extra in cash.

Starting from the summer season 2019, an all-inclusive beverage package was provided that included in the *resort mandatory fee (€9 per day per person > 3 years)* a bundle of beverages that consumers could consume anytime. In 2018, such beverage consumption had to be paid extra.

The analysis focuses on guests' extra expenses at the resort bar, measured as weekly average consumption per person. The three resorts under examination are part of the same chain, and they provide standardized service on a per week basis. Observations for each week can be treated as independent, as only 14% are returning customers in each season.

The analysis compares the extra expenditure at the resorts' bar over the same 15 weeks summer season period in 2018 and 2019, respectively. Resort prices, composition of guests, bar prices, bar menu composition, and personnel remained the same over the two seasons under investigation. The only change observed between the two seasons was the introduction of a bundle of beverages into the holiday package.

Consumption data of 61,000 guests (31,000 in 2018; 30,000 in 2019), collected over a time period of 15 weeks in 2018 and 2019, respectively, were analysed. Each observation corresponds to the average extra expenditure of 150–1000 guests that stayed at a given resort during a specific week. Accordingly, Student's *t*-test for independent samples is recommended to determine whether guests' extra expenditure, measured as weekly average consumption per person, differs in the two seasons under investigation (Box et al., 1978). While it is the most commonly used method in experimental research in tourism (Fong et al., 2016), this statistic is mostly suited for evaluating samples with less than 30 observations (Shafer & Zhang, 2013).

Around 70% of guests were adults (18 years or older), 30% were children and teenagers (up to 18 years) in each season. Guests were predominantly of Italian origin.

**Table 1.** Descriptive Statistics and results of Student's *t*-test (*Variables*: *Total bundled beverages* include the total weekly consumption per person of soft drinks [cola, lemonade, orange soda] + industrial beer in all the three resorts).

| | | | No. of weeks | Mean (€) | Std. deviation | Std. error | 95% Confidence interval for mean | | Student's *t*-statistics | Sign. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Lower bound | Upper bound | | |
| All resorts | Total bundled beverages | 2018 | 15 | 1.59 | 0.55 | 0.08 | 0.63 | 2.87 | **2.01** | **0.02*** |
| | | 2019 | 15 | [a]1.94 | 1.06 | 0.16 | 0.77 | 5.39 | | |

Notes: Only guests >3 years were considered for consumption of soft drinks. Only guests >18 years were considered for consumption of beers.
*p < .05

**Table 2.** Descriptive statistics and *F*-statistics, weekly average consumption per person (*Variables*: *Paid bar consumption 2019* includes Unbundled beverages [wine, spirits, aperitifs, handcrafted beers, coffee] + Food [ice cream, chips, snack food]; *Paid bar consumption 2018* includes Unbundled beverages [wine, spirits, aperitifs, handcrafted beers, coffee] + Food [ice cream, chips, snack food] + soft drinks [cola, lemonade, orange soda] + industrial beer).

| | | | Descriptive statistics | | | | | | | Student's *t* test | | Mann–Whitney test of equality of median | | Test of equality of standard deviations | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | No. of weeks | Mean (€) | Median | Std dev. | Std error | Min. | Max. | *T*-statistic | Sign. | Chi-square | Sign. | *F*-statistic | Sign. |
| RESORT1 (4 stars) | Paid bar consumption | 2018 | 15 | 7.31 | 7.41 | 1.01 | 0,26 | 5,61 | 9.22 | 1.21 | 0.12 | 0.13 | 0.72 | 0.64 | 0.41 |
| | | 2019 | 15 | 6.81 | 7.19 | 1.26 | 0.33 | 4.61 | 8.61 | | | | | | |
| RESORT2 (3 stars superior) | Paid bar consumption | 2018 | 15 | 6.21 | 6.48 | 0.28 | 0.29 | 4.62 | 8.62 | 0.97 | 0.17 | 1.2 | 0.27 | 0.55 | 0.28 |
| | | 2019 | 15 | 5.74 | 5.46 | 0.39 | 0.39 | 3.61 | 10.16 | | | | | | |
| RESORT3 (3 stars) | Paid bar consumption | 2018 | 15 | 4.82 | 4.74 | 0.13 | 0.13 | 3.89 | 5.66 | 1.22 | 0.12 | 0.13 | 0.72 | 0.91 | 0.86 |
| | | 2019 | 15 | 4.59 | 4.69 | 0.13 | 0.13 | 3.27 | 5.32 | | | | | | |

Notes: Only guests >18 years were considered for consumption of *Unbundled beverages* and for consumption of beers. Only guests >3 years were considered for consumption of *Food* and for consumption of soft drinks.

## 3. Results

As shown in Table 1, consumption of beverages included in the bundle increased in 2019 compared to 2018, when they were to be paid extra. This clearly indicates that guests value the all-inclusive beverage package. However, no significant reduction in extra expenditure is observed from 2018 to 2019, as reported in Table 2. Student's *t*-statistics are non-significant for all three resorts, substantiating that there is no difference in the mean value of extra expenditure between the two seasons. To check the robustness of these results, a test of difference in median and a test of difference in variance have been performed. Results demonstrate that there is no difference between extra expenditure in median and variance in all the three resorts under analysis.

While it would be rational to expect that expenditure for extra consumption decreases after the inclusion of beverages into the holiday package as stated in hypothesis 1, results do not support hypothesis 1. Results support hypothesis 2, confirming that the budget for extra spending is independent of what has been pre-paid for the vacation and of what is included in the vacation package. This result is observed for all the three resorts analysed, suggesting that this behaviour is robust.

## 4. Conclusion

This study contributes to the debate surrounding all-inclusive holiday packages. It is the first study that investigates the impact of price bundling on tourists' extra expenditure (complementary items that are not *part of the bundle*), thus representing a novel perspective in the literature. In line with the previous literature on bundled packages, our findings indicate that consumers fail to fully recognize the value of single items included in the bundle (Soman & Gourville, 2001), as they are allocating the same budget for extra expenditure independently of what is included in the vacation package. Future analysis should investigate the motives for such behaviour of consumers and the design of attractive packages for different types of tourist segments.

This study yields some straightforward managerial recommendations. Practitioners need to consider introducing a mixed-product bundled package, leaving aside some attractive but non-essential options. On the other side, consumers wishing to stay on budget during vacation need to pay close attention to how different expenditures are categorized to avoid overspending.

The present research is a pilot study and hence affected by limitations. Comparative evaluations of tourists' behaviour in different settings are needed to further increase results' generalizability.

## Disclosure statement

No potential conflict of interest was reported by the author(s).

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