

**Master Arts Management
AA 15/16**

KEY ISSUES IN TOURISM DEVELOPMENT
Convenor: Roberto Formato


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Roma, 17/11/2015

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Agenda, 17th November 2015

9:00 - 10:20	Experiential tourism. The model of Falk. The model of Pine and Gilmore.
10:30 - 12:00	The Csikszentmihalyi model of flow.
13:00 - 14:20	Pricing and funding as revenue sources.
14:40 - 16:00	Presentation of the case study – Tatev Revival Project.



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Key issues in tourism development

EXPERIENTIAL TOURISM



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**Which needs does culture
satisfy?**



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Product benefits

- Many possible reasons to visit a site or attend to a cultural event:

- Interest in that particular art form or artist
- Participation in a social ritual
- Entertainment
- Self-improvement
- Social involvement

Probably already
visiting or attending

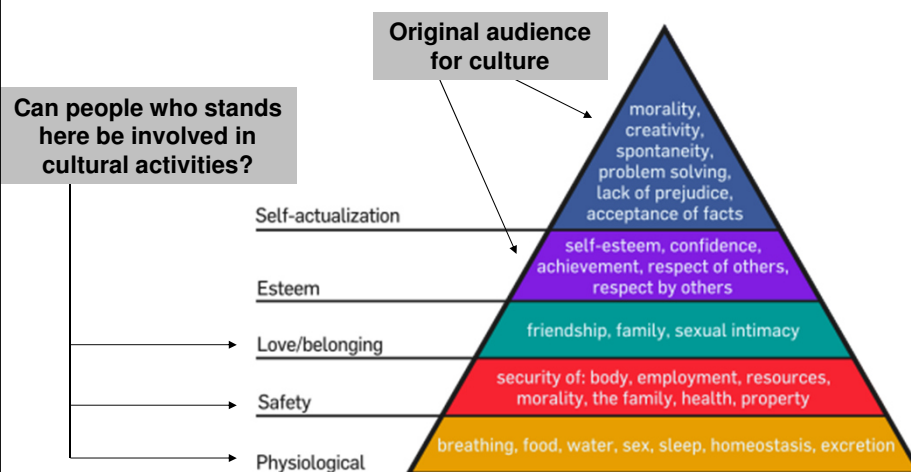
Relevant to understand to
design the right product,
select the correct price,
choose the appropriate venue,
create effective promotion



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Maslow Hierarchy of needs



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Which needs should culture and arts satisfy?

- People who are busy satisfying lower-level needs **can as well be able to appreciate culture**
- It might however be presented in a manner and setting which also **can help to satisfy their other needs** at the same time
 - *e.g. tourist services for family with children or elderly*
- Unfortunately, some people working in cultural organizations **feel that supplying cultural events that meet lower-level human needs somehow debases culture**
- They see with suspect culture that meet needs different than higher motivations



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Which are culture's competitors?

- For many consumers attending a concert or visiting a museum is only **one of many possible alternatives** that might be chosen as a means to fill their leisure time
- Benefits such as **relaxation, entertainment**, opportunity to **socialize** with friends and family can be **provided by other leisure activities**
- Such activities are **direct competitors** of the cultural experience
 - *attending sporting events*
 - *play at home*
 - *surfing on the internet*
 -



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Attracting the target groups

1. **Falk** typologies of museums' visitors
2. **Pine & Gilmore** model for the experience economy
3. **Csikszentmihalyi** model of flow



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Falk's museum visitors' model



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Museums' segments

- The literature provide us with **various reasons** for visiting cultural sites and attending to cultural events
- With reference to museums' visitors, Falk observed the existence of the following segments:
 - *Experience seeker*
 - *Facilitator*
 - *Explorer*
 - *Professional/hobbist*
 - *Recharger*



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Experience seekers

Who they are	Motivated by	Ask for
<ul style="list-style-type: none"> • Adult groups • Organized tours • Foreign visitors • Yoing couples on short trips 	<p>Not to become a subject matter expert, but to have a memorable experience – a “Disney Experience”</p> <p>Making memories</p>	<p>Follow good orientation, otherwise they just wander and / or follow the crowds</p> <p>To see the “highlights” of the museum</p> <p>Read “Guides to the Museum's Best”, designed to highlight and help appropriately interpret museum exhibits</p> <p>Get an overview of the place rather than “deep” understanding</p> <p>Audioguides that give the “big picture” and a few salient facts, highlighted by interesting sound bites</p> <p>Not emphasized details (ad many audioguides do...details should be in smaller print and not obstruct the goal of moving quite quickly)</p> <p>Easily find the washrooms, coatrooms and cafés</p> <p>Taking pictures, memorializing such important experience also for others when they are back home (museum staff to take picture of them?)</p> <p>Gift shop: some of them will start the visit here and never go beyond it – gifts are likely to be one of the most salient aspects of the visit</p>

I have been there! I have done that!
Very much interested in collecting memories



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Facilitators

Who they are	Motivated by	Ask for
Parents with children Group of friends leaded by one expert fellow Group of scholars	Supporting what's best for their loved one or companions	Occupy, stimulate and engage the children Educational place/event to engage in meaningful social experiences Family guides, signage and orientation specifically designed for them Signages that indicate " child-friendly " attractions Demonstrations, including children as volunteers Food services and restrooms facilities Gift and shops <i>café</i> which are used before leaving – a reward for a day well spent Buying educational books, games or toys to prosecute the educational experience at home/school

It is important to provide engaging social experiences



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Explorers (curious)

Who they are	Motivated by	Ask for
Large part of cultural visitors May become professional / hobbists	Intellectually challenging place/event that has the potential for satisfying personal curiosity and interest in a specific cultural field	Exhibitions not too linear or prescribed Not much orientation support or guidance Labels, brochures and guides to achieve learning objectives New technologies that offer choice and control over content Not much souvenirs Books on the topic of museum's exhibit or something more substantial Quick Response Code (QR code)

The can ben targeted by using CRM techniques



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Professional / Hobbists

Who they are	Motivated by	Ask for
Specialized visitors Repeat visitors True “cultural” visitors At large attractions, normally up to 5% of total visitors	“To do a job”, not to wander	No interpretative tools such tours, audioguides or brochures but the old “visual storage” model Behind the scenes tours or visits Direct interaction with museum staff experts In depth books on the topic of interest, reference materials and specialized books or supplies that they believe cannot find somewhere else

Interested in specialized services



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Rechargers

Who they are	Motivated by	Ask for
Usually nearby residents	Find peaceful and aesthetically pleasing corner where to relax Receive spiritual rather than physical or commercial nourishment	Quite place where they can sit without being disturbed – a place where they can recharge their “personal” batteries Special “at-one” experiences Food and drink at the café to meet their high aesthetic standards

The can be a target for low season or less crowded days



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The Pine & Gilmore model



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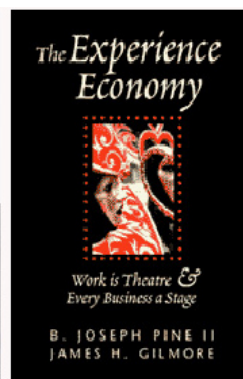
Towards an “experience economy”



Jim Gilmore



Joe Pine



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Key concepts

- People do not buy goods or services
- They buy **experiences**
- Building **excellent experiences** is the real organization's priority

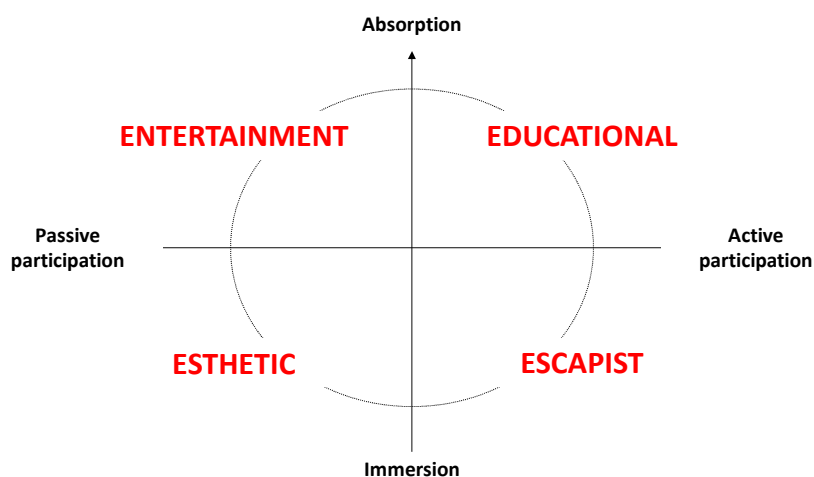
How to recognize an excellent experience?



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The experience realms



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Entertainment

- **Passively absorbtion** through senses

- viewing a performance
- listening to music
- reading for pleasure
-

Adam Smith singled out entertainers “players, buffons, musicians, opera singers, opera dances...” as unproductive labourers....times are a changin’...



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Changing products....



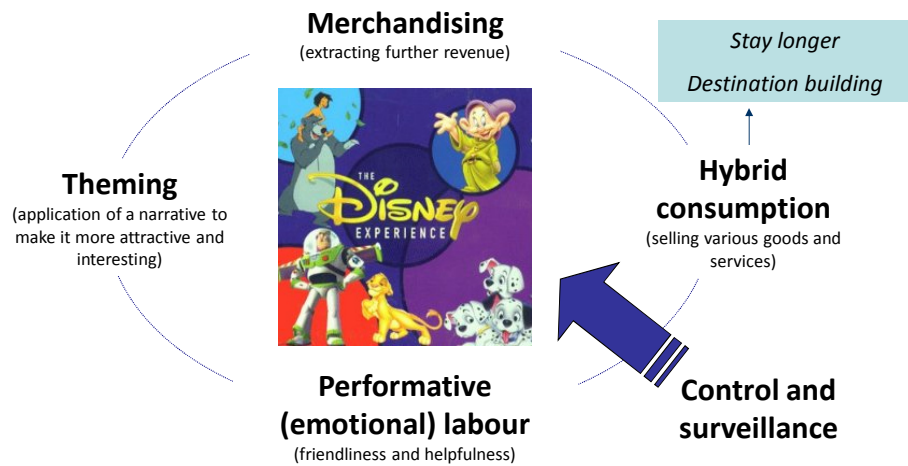
Long-haul airlines will increasingly be seen not only as transport systems but as entertainers [Pine & Gilmore, 1999]



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The Disney approach



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Educational

- Differently from entertainment, educational experiences involves the **active participation** of the individual
- To truly inform a person and increase his knowledge and/or skills, educational events must **actively engage the mind** (for intellectual education) **and/or the body** (for physical training)

Education is a serious business, but that doesn't mean that educational experiences can't be fun

EDUTAINMENT



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The Universeum Science Discovery Center in Gothenburg



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Escapist

- Escapist experiences involve **much greater immersion** than entertainment or educational experiences
- They are the polar opposite of pure entertainment
- The guest of the escapist experience is completely immersed in it, an **actively participant**
- Examples include theme parks, casinos, chat rooms, extreme sport vacations
- Surfing on the **internet** is escapist
- **Virtual reality** devices do offer escapist experiences

The individual becomes the actor, able to affect the actual performance



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Wearable technologies at museums

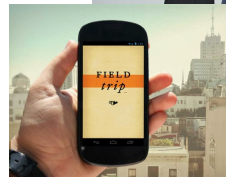
Google glasses at Smithsonian

Applications linking across smart devices that provide an informative and digestible multimedia experience based on geolocation and user preferences

Google Now to maximizes museums' opportunities for engagement



Field Trip categories for "Architecture," "Art and Museums" and "Historic Places and Events"



Read and discuss the related article



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Esthetic

- Individuals immerse themselves in an **event** or environment but have **little or no effect on it**
- Standing on the rim of the Grand Canyon, setting at a caffè in San Marco square in Venice



Traditional visits to art gallery or museums are esthetic experiences



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Aims of the experiences

Type of experience	Aim
Educational	To learn
Escapist	To do
Entertainment	To sense
Esthetic	To be there



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The Csikszentmihalyi model of flow



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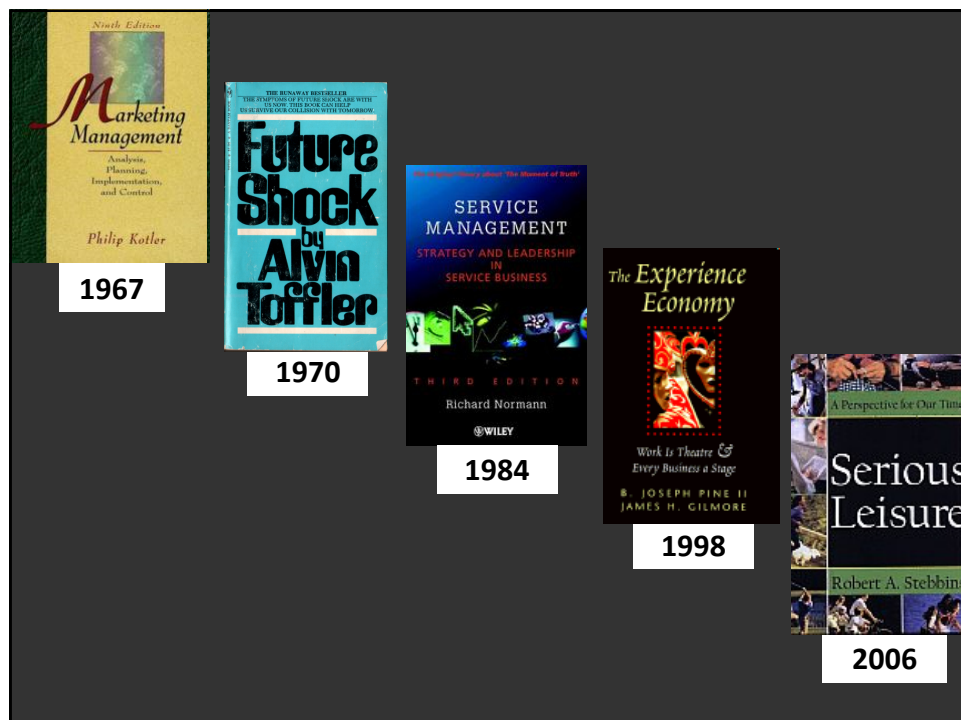
Self-improvement

- Self-improvement is a **major motive** of visiting a site or attending a cultural event
- Anthropologist Nelson Graburn foresaw a society in which leisure-oriented activities, particularly those focused on **personal growth and development**, would soon become dominant
- The most sought leisure goods and services would therefore become those with the richest potential for combining:
 - A high degree of **self-enrichment and self-actualization**
 - A high degree of **convenience**



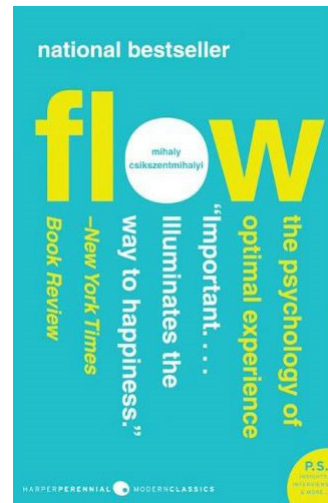
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Csikszentmihalyi's model of flow

- Successful cultural sites and events do create **“optimal” experiences** that are appropriately scaled to visitor's interest and abilities
- People exhibit a common set of behaviors and outcomes when engaged in tasks which they find intrinsically **rewarding**
- Csikszentmihalyi called this common experiential quality the **flow experience**



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Features of flow experiences

- Clear goals
- Continuous feedback
- Task demanded in **balance with person's abilities**

The more one does the activity, the greater one's skill

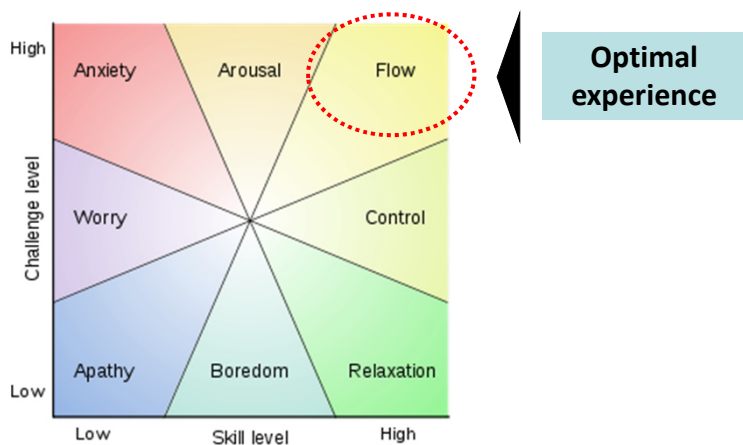
The greater one's skill, the greater the challenges required to continue enjoying the activity and remain in a state of flow



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Csikszentmihalyi's model of flow



- http://www.ted.com/talks/mihaly_csikszentmihalyi_on_flow.html



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Pricing and Funding as Revenue Sources



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Funding of cultural organizations

“The days when cultural organizations could ignore the basics of pricing theory are gone”

Bonita Kolb, 2013

- Cultural organizations have **two main sources** of revenue:
 - Directly from the **consumers** (revenue from ticket sales, fees, food and beverage served, merchandise sold), which however usually do account for less than 50%
 - Funding from the **government, corporations and wealthy patron**
- Due to the economic decline starting in 2008, **external funding has been increasingly difficult to obtain**



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Rationale for public funding

- The traditional argument for government funding of art is that it **makes the world a better place**
- This argument is however becoming **increasingly difficult to communicate** to taxpayers
- Moreover, in most countries:
 - attendance at the high art forms has always been **skewed toward higher-income and better educated individuals**
 - there was a well-established policy that while government should fund the arts, it should not be involved in decisions concerning the creation or presentation of art, which was only up to the artistic direction
- Now there is a **growing political pressure** for cultural organizations that accept government funding, **to be responsive to the public**



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Implications of non-profit status

- The absence of a profit makes it **difficult to effectively manage** the organization **and measure** success:
 - It makes difficult to articulate **goals** and verify whether they are met
 - It prevents from **motivating** the staff financially
 - It makes difficult to build up a **cash reserve** to pay for the increasing cost of technology in a time when museums are challenged by visitors that do no longer want to view objects passively but to be involved by using the latest technology
- Paradoxically, for some cultural organizations, the **absence of customers** is however accepted as a **sign of success** because it is considered a consequence of high artistic standards, that cannot be appreciated by the majority of the public
- The reliance on other sources than revenue for funding leaves the cultural organization **susceptible to political pressure** and other external influences



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Reasons for charging a price

1. The cultural organization needs **revenue**, especially in hard economic times
2. Price affects the **behaviour** of people
 - They **care more** for a product which they pay to consume than for a product that is free
 - Price can be used to **influence** their decision making process so that to orient consume
3. Charging a price results in financial records that **track the use** of the product



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Risks in pricing

- Lowering of the price may not inspire a purchase but have the **opposite effect**, as it sends the psychological message that the product is **not worth the price**
- The public would also learn to **expect a permanent reduction** of the price, inducing negative impacts on the financial performance of the cultural organization
- For this reasons, rather than promote on price, most cultural organizations use **non-price competition** and stress the quality of the product, as it happens for profit organizations that sell specialty products that have few substitutes



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Pricing methods

- a) Cost pricing
- b) Competition pricing
- c) Prestige pricing



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Cost pricing

- It considers the actual cost of producing the product
- For a profit business, the price charged must **at least cover the cost of production**, otherwise the company will sooner or later become bankrupt
- Cultural organizations, if are non-profit, are **unable** to cover the costs of producing their product through revenue from purchase alone
- The practice of pricing to cover the costs of the product may be however a very **relevant target even for them**



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Type of costs

FIXED

- The costs that would be incurred even if no product is produced at all:
 - Rent and mortgages
 - Pays for equipments
 - Administrative staff
 -
- Small cultural organizations should think carefully before maintaining expensive offices, permanent galleries or theatres

VARIABLES

- The are directly related to the production of the cultural product
- The more cultural product produced, the higher the total variable costs are:
 - Rights to produce a play or to represent an exhibit
 - Actors and dedicated staff
 - Mounting a specific show or exhibit
 -



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Break-even point

- The break-even point (BEP) is the sales amount in either unit or revenue terms, that is required to **cover total costs** (both fixed and variable)
- Profit at break-even is **zero**

$$\text{BEP} = \text{Total Fixed Costs} / (\text{Price per Unit} - \text{Variable Costs per Unit})$$

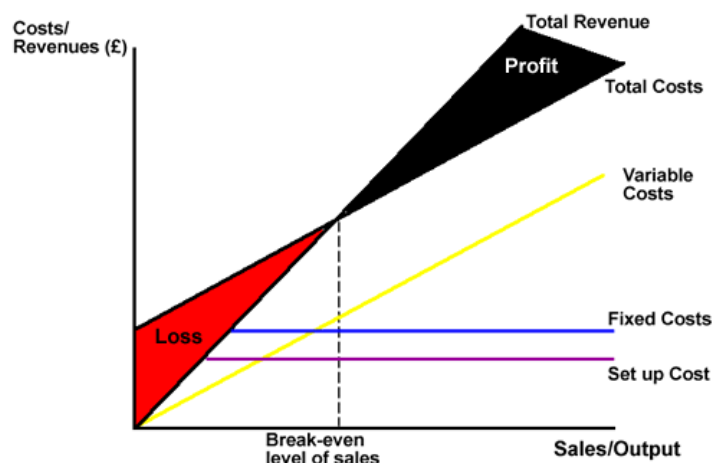
- Break-even is only possible if a firm's prices are **higher than its variable costs per unit**
- If so, then each unit of the product sold generates some "**contribution**" to cover fixed costs



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Break-even point



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Competition pricing

- The approach assumes that the **consumer has money to spend** and makes the decision on what activity to pursue based on considerations other than price
- Price becomes critical only if it is dramatically different from the competing products under consideration
- Cultural organizations must understand **what consumers consider an acceptable price** looking at:
 - *Direct competitors*
 - *Providers of other competing activities (e.g cinema ticket, price of an evening at the pub, etc.)*
- Consider that **smartphone apps** increasing allow for quick comparison of prices



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Prestige pricing

- It consists of non focusing on pricing when promoting the cultural product, but rather on **benefits and quality** provided
- For some art events the price charged by competition is not relevant, because they consist of **specialty cultural products** for which there is no easily obtained substitute
- In this case the organization can **price high and still attract** attendance
- Examples:
 - blockbuster shows of Impressionist art
 - operas with star performers
 - fundraising galas and opening nights
 - etc.



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Combining pricing methods

- There is no reason why a cultural organization must use only one approach to pricing
- Example:
 - *Competition pricing for the regular ticket*
 - *Prestige pricing for special events and related merchandising (coffee mugs, t-shirts, etc.)*
 - *Cost pricing for refreshments*



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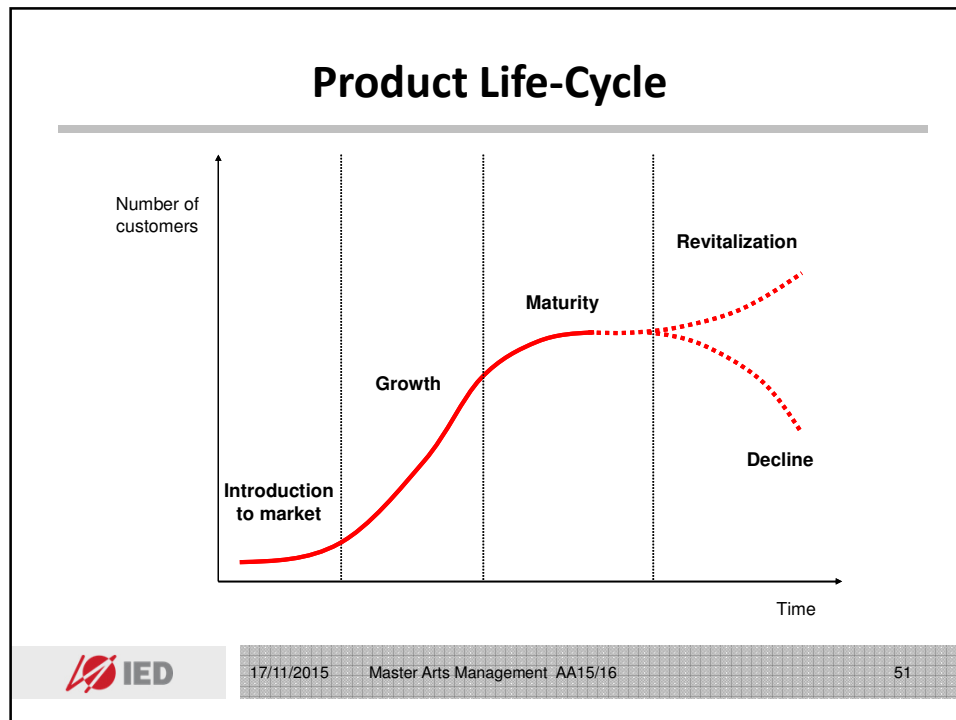
Differential pricing

- The cultural organization can also have **different ticket or admittance prices for different segments, times or events**
 - *lower prices for students and seniors*
 - *lower family pricing to encourage their attendance*
- Differential pricing can also be used to **price events differentially based on demand**
 - *Lower prices may be used to create demand at times when it is usually slow, helping to recover fixed costs*



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Product introduction pricing

- The introduction stage is usually characterized by **low growth rate of sales** as the product has to be communicated to the market
- **Promotion costs can be high**, because extra information about must be transferred to consumers through various media
- Thus, cultural organization can incur **losses** rather than profit in this stage
- Two main pricing strategies can be adopted:
 - *Skimming pricing*
 - *Penetration pricing*

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Skimming pricing

- It can be used if the product is **new to the market and there is little competition**
- The price is set **high**, because there is no competing products with which to compare it
- As the product moves through the life cycle the price is usually **decreased**
- This pricing strategy is often used for **new hi-tech products** (e.g. IPas by Apple) as:
 - *the products are promoted as new and exciting*
 - *high development costs have to be covered*



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Penetration pricing

- It is used when a new product enters an already **crowded market** where it has to face competition from already established product
- In such a situation the organization cannot charge a high price, but must try to **sottract customers** from the competing products by pricing low
- To avoid to practice this strategy, the organization should try to **differentiate** its product, explaining why and how is product is different and worth the price



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Techniques to raise prices

- a) Endowment effect
- b) Limited time
- c) Relativization
- d) Anchors
- e) Free offers
- f) Expectations (high prices)



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Endowment effect

- It is based on the observation that **when we own something we begin to value it more** than other people do
 - *Example: on-line auction*
- **Samples** are common sales incentives for consumer products such as toiletries and food
- They can also be used by cultural organizations, by **bringing art to the targeted group**:
 - *Video clips placed on You Tube*
 - *Podcasts linked to the website or social media sites*
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Limited time

We associate higher value to offers which are
time-constrained



Consumers are brought to buy only because **there might be no more chance** to do it

<http://www.groupon.it>



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Relativization

- It is based on the observation that most people **do not know what they want** unless they see it in context
- We rarely choose things in absolute terms, because **we focus on the advantage of one thing over another**, and estimate value accordingly
- It has been observed that given three choices, most people will take the **middle choice**
 - *by creating an expensive ticket, the organization can lure customers into buying the second most expensive choice, which can still be engineered to deliver a high profit margin*



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Example. Subscription

Economist.com	
OPINION	SUBSCRIPTIONS
WORLD	Welcome to
BUSINESS	The Economist Subscription Centre
FINANCE & ECONOMICS	Pick the type of subscription you want to buy or renew.
SCIENCE & TECHNOLOGY	<input checked="" type="checkbox"/> Economist.com subscription - US \$59.00
PEOPLE	One-year subscription to Economist.com.
BOOKS & ARTS	Includes online access to all articles from <i>The Economist</i> since 1997.
MARKETS & DATA	<input type="checkbox"/> Print subscription - US \$125.00
DIVERSIONS	One-year subscription to the print edition of <i>The Economist</i> .
	<input type="checkbox"/> Print & web subscription - US \$125.00
	One-year subscription to the print edition of <i>The Economist</i> and online access to all articles from <i>The Economist</i> since 1997.

This should be the preferable

But this is chosen

Relativized offer

Source: Ariely, 2008



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Anchors

- It is the technique **used when the product is new** to the market and there is little competition
- The price is set **high**, because there is no competing products with which to compare it



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Free offers

- Experiments have shown that **people are attracted by offers that offer something for free**
- This brings them to make **decisions that are not in their best interest**
 - *E.g. Amazon free shipping on orders over a certain amount of money*



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The placebo effect

- Experiments have shown that when people see a discounted item, they instinctively assume that **quality is less** than that of a full-price item



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Key Issues in Tourism Management

PRESENTATION OF CASE STUDY: TATEV REVIVAL PROJECT



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