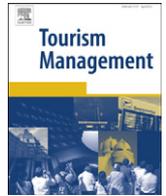


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Prices and brand diversity in touristic areas supermarkets[☆]

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H I G H L I G H T S

- ▶ We compose a database of supermarkets in Gran Canaria.
- ▶ We analyse the effects of tourism on the destination retail markets.
- ▶ Price and brand equations are estimated using GIS techniques.
- ▶ Prices in touristic areas are higher than those in other areas.
- ▶ The number of brand varieties is lower than in non-touristic areas.

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Using a dataset of consumption patterns in the island of Gran Canaria collected by the authors, this paper attempts to quantify some non-positive effects of tourism on destinations retail markets for goods and services. In particular, we empirically prove, controlling by factors such as population, size of supermarkets or number of competitors, two main effects: first, that supermarkets located in touristic areas charge higher prices than those in non-touristic areas; and second, that brand diversity is lower in the same stores, particularly in the case of smaller ones. These results confirm that local population do not always benefit from living in a touristic city and possibly provide a more balanced view on the positive and negative sides of tourism.

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1. Introduction

Many foreigners often see living in a touristic destination with envy. During a large part of the year, and without suffering the nuisances of packed travelling or inconvenient accommodations, local residents enjoy at home the benefits from a benign climate, beautiful surroundings, and – sometimes – a dynamic society with plenty of cosmopolitan atmosphere. Although this paper does not negate this evidence, it intends to show that there also exists an extra cost in living in such paradisiacal places.

With some notable exceptions and purely due to geographical reasons, most popular sun-and-beach destinations tend to be located in countries or regions with lower GDP per head than the places where touristic flows originate. According to Eurostat (2011), more than 150 million people from the UK, Ireland, Germany and the Scandinavian countries fly southbound every year to the Mediterranean shores of Spain, Greece or North Africa or to the Atlantic beaches in Portugal or the Canary Islands.

One of the most widely studied positive effects of this phenomenon is the revitalization of local economic activity brought by higher income visitors. When arriving at their destination, tourists buy goods and services. Most surveys show that the longer their stay abroad the higher tends to be their spending per head. For example, the *Spanish Tourism Expenditure Survey 2010* (available online at www.iet.tourspain.es) confirms that their expenditure also increases when the difference with locals in terms of purchasing power parity (as compared to their prices and wages at home) is larger. When tourists stay at non-hotel accommodations (apartments or privately rented houses) or travel by

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themselves (instead of booking holidays packages or all-inclusive programs) their spending at local stores is generally larger and more frequent.

Of course, managers and local retailers see this wealthier demand segment as an opportunity to make profits. Although some goods and services providers (crafts or souvenirs sellers, touristic restaurants and bars, etc.) may decide to specialize on this particular clientele, others (groceries, supermarkets, bookshops, etc.) will sell both to tourists and locals and, since price discrimination seems unfair (and barely legal), it can be expected that (large) tourism inflows on certain destination areas will induce – as a result of a simple income effect – higher (average) prices in most typical consumption baskets.

However, price is not the only decision variable that consumers care about. In horizontally differentiated markets most retailers offer a number of brand varieties for the same product in order to attract consumers with different tastes or preferences. Product differentiation is then supported with the help of advertising (either in place or via the media), attractive packaging or specific promotion policies and discounts. But all these resources have a weaker effect on tourists, whose command of local language is limited. Therefore, and particularly in smaller shops – where selling space is more valuable – we can expect that brand diversity in stores of touristic areas will be lower than in non-touristic ones.¹

Are these expected negative effects relevant enough? Should they be included in any balanced review on the effects of tourism from now on? After a review of the related literature in Section 2, this paper addresses these two questions from an empirical viewpoint by providing evidence from a 2010 Canary Islands panel dataset. The example of the Canary Islands seems particularly appropriate to test the claims made in this paper because this archipelago, located 1500 km southwest of mainland Spain, receives regularly every year more than 12 million European visitors, whereas the local population is about 2.1 million. On average, the ratio visitors/locals is above 6, although in some touristic municipalities these figures are closer to 10–12 (ISTAC, 2010).

As explained in Section 3, our source includes very detailed information on prices and brand varieties for a wide subset of commodities in a representative sample of all the supermarkets of the island of Gran Canaria. An additional relevant feature of our data is that stores have been exactly located using GIS techniques, which allows a precise (but flexible) definition of geographic markets in connection with the influence areas of touristic flows. We then estimate in Section 4, several price and brand variety equations in order to test the impact of tourism on each supermarket according to its location (or not) within a touristic municipality. We control by the size of the local market, the size of the stores and the existence (or not) of nearby competitors. By using clustering techniques that take into account potential differences in variance among municipalities, we finally produce estimates that confirm our expected results, which are analysed and discussed in Section 5.

2. The impact of tourism on prices and brands: previous research

The existing literature on the *negative* impacts of tourism over the host community has traditionally classified them into three broad categories: environmental, social effects, and *purely*

¹ Although it is beyond the scope of this work, a theoretical support for these ideas can be found on many papers that model rivalry in price and variety among supermarket retailers (see Richards & Hamilton, 2006, for example), which uses a nested constant elasticity of substitution framework. There are not specific examples for touristic supermarkets.

economic impacts. The first of these research lines is the most extensive (see for example, Krippendorff, 1982; Lindberg & Johnson, 1997; Mihalic, 2000; Orams, 1995; Romeril, 1989, among others). It has mainly focused on the relationship between tourists and residents in terms of conflicting preferences over environmental conservation (see Bujosa & Rosselló, 2007), or the alternative uses of existing natural resources (Concu & Atzeni, *in press*). The second category identifies the disruption of social relations (also Lindberg & Johnson, 1997; Thyne, Lawson, & Todd, 2006), or the changes in residents' attitudes and perceptions about foreigners (Butler, 1980; Diedrich & García-Buades, 2009; Lawson, Williams, Young, & Cossens, 1998; Mason & Cheyne, 2000; Ross, 1992, among many others) as the main social negative impacts of tourism.

The third category of negative effects has been much less studied so far and, in particular, there are few studies on how the destination markets for goods and services are affected by touristic flows. Harcombe (1999) and Mason (2008), for example, follow a macro-economic approach. They include as negative economic consequences of tourism both the opportunity costs for a society (of developing the tourism industry rather than other economic activities, with the subsequent risk associated to sectorial over-dependence) and the tourism-driven inflation instability (caused by an extra and often fluctuating demand on local services), but do not quantify these effects.

Following a different approach, Sharpley and Telfer (2002) develop a theoretical analysis of the consequences of tourism on prices. They show that tourism may result in demand-triggered inflation at destinations when visitors bring additional financial resources into host communities where the supply of goods and services is not fast enough to adapt to the new demand. Sancho, García, and Roza (2007) also explicitly consider tourism as a source of inflation, not only for commodities and basic products, but also in housing and land prices.

From an empirical point of view, Lawson et al. (1998) provide some evidence about the idea that tourism inflates the cost of living for locals. In their study for New Zealand, they find that price increases in touristic places may be so high that they even exclude some New Zealanders. Horn and Simmons (2002) argue that in large cities benefited by tourism flows prices have fallen due to the building of large malls and shopping centres, but the opposite has happened in small communities. Another empirical study is García and Sancho (2000), who quantify how local population in four touristic Spanish regions perceived the causes of increased local prices. Torres (2003) argues that tourists normally enjoy their leisure activities in places with prices lower than their home-cities, and shows that their demand induces a price increase at destinations.

It is not easy to find other studies on the impact of tourism on other microeconomic market mechanisms (in terms, for example, of product differentiation, location, entry or consumption patterns). Similarly, none of the most widely cited empirical papers on pricing in supermarkets that consider different consumer groups make a special consideration for tourism. Blinkey and Connor (1998), for example, shows that a lower concentration level implies cheaper prices when consumers' income is heterogeneous. Aalto-Setälä (2002) states that supermarket chains with larger market share enjoy higher mark-ups, whereas Griffith and Harmgart (2008) conclude that barriers to entry increase equilibrium prices, in both cases with two groups of consumers.

However, as explicitly pointed out by Richards and Hamilton (2006), it is quite clear that firms' marketing policies consider both price and variety as central elements. Although there are several other examples in this literature that explicitly consider the effect of brand diversity and prices for foreigners (see for example the recent survey by Winsor, Mak, & Hsu, 2010), there still exists a gap in the empirical literature that studies the negative economic

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