How to Raise Recreation and Park Prices Without Making People Mad

Ohio Park and Recreation Association
Sandusky, February 14, 2017

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Presidential Professor for Teaching Excellence
Texas A&M University
The “Perfect” Price

Is not one where the payer gets the benefit, or where resources are properly rationed, or where service levels are determined, or where there are no income distribution effects. For the local official, the perfect user charge may have these features but of overriding importance to him or her is whether the public will resist paying for the service.

Arnold Meltsner (1971)
• Assumes:
  (i) price decisions are logical and rational
  (ii) Weigh costs and benefits to maximize utility
  (iii) People are selfish and tastes do not change
• Describe how people **ought to** behave, rather than how they **actually** behave
Reference Price Genesis (1)

Adaptation-Level Theory
A new stimulus is judged against a standard to which an individual has become accustomed.

If a person has lived in the silence of a desert, the birds and crickets of a farm will seem noisy. But if one has lived in the hubbub of Manhattan, the same farm sounds will seem blissfully quiet. However, after living on the farm for a while, the previous city dweller will then find Manhattan noisy. The reason is that new stimuli are incorporated into prior information so that the reference point is shifted.
Reference Price Definition

The price people expect to pay is determined by:

• Average of all prices paid in the past, but weighted to reflect most recent price.
• Price most recently paid.
The Genesis of Reference Price and its Applications in the Parks and Recreation Field

THEORETICAL GENESIS
• Adaptation-level theory
• Assimilation-contrast theory

RESIDUAL INFLUENCERS
• Prior Purchase experience
• Frequency of previous purchases
• External sources

CONTEXTUAL INFLUENCES
• Malleable
• Change in context, changes the reference price

NORMATIVE INFLUENCERS
• Equity: Community value system
• Prevailing cultural norms

REFERENCE PRICE
Context 1
High-end Restaurant
Major Hotel

Context 2
Low-end Restaurant

Context 3
Specialist Wine Store

Context 4
Supermarket
Leisure Managers as “Choice Architects”

• Design the context in which people make decisions
• Frame the pricing issues so the outcome becomes favorable to the agency
Framing

• Different ways of presenting the same information often evoke different emotions.
Framing

• Different ways of presenting the same information often evoke different emotions.

*Surgery Survival?*

• “The odds of survival one month after surgery are 90%”

“Mortality within one month of surgery is 10%”
Framing

• Different ways of presenting the same information often evoke different emotions.

*Surgery Survival?*

• “The odds of survival one month after surgery are 90%”
  “Mortality within one month of surgery is 10%”

*Cold cuts?*

• “90% fat free”
  “10% fat”
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INTERNAL REFERENCE PRICE

STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

RECONCILE REFERENCE PRICE INCONSISTENCIES WITH STRATEGIES EMANATING FROM PROSPECT THEORY
RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

\[ Value = \frac{\text{Quality of Services}}{\text{Price paid}} \]
RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

• About quality
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost

2. Detail all of a service’s attributes and the benefits it offers
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
• Social interaction with friends and family kin.
• Social interaction with previously unknown others.
• Ethnic and cultural identity.
• A gain in prestige; social recognition; status.
  The mastery of particular skills may be regarded as a form of “conspicuous consumption,” which brings forth peer group recognition.
• Excitement; an adrenaline rush; exhilaration.
• Ego-satisfaction of achievement and accomplishment; a desire to be successful.
• Security; to be part of a group that gives a sense of belonging, connectedness to others, and sense of affection.
• The feeling of being important and having responsibility; growth of self-worth and self-confidence.
• Fantasy; illusion; offering temporary escape from the realities and routines of everyday life.
• Relaxation and alleviation of stress and tension, which may be obtained from hard or no physical effort.
• Catharsis from “flow” to alleviate negative tensions, anxiety, anger and unwanted adrenaline.
• Acquisition of knowledge; satisfaction of curiosity.
• Feeling of well-being and vitality that derive both from exercise and physical fitness, and from mental alertness.
• Regression; the desire to “let your hair down” and act in a puerile, adolescent way.
• Aesthetic enhancement derived from being in an attractive natural environment.
• Challenge and risk, which lead to self-exploration, self-discovery, and self-development and may be obtained from sailing or skydiving, or from acting, dancing, or fly fishing.
What is this?
The Transformational Lens

*It is:*

- Enhanced self confidence
- Social recognition
- Excitement
- Ego-satisfaction of achievement
- Camaraderie
- Social interaction
- Sportsmanship
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
4. Focus on ambiance
Perceptions of Quality

Tangible, visible cues communicate quality:

“Most of us unconsciously turn detective... processing what we can see and understand to decipher what we cannot.”

(Berry & Bendapadi 2003)
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
4. Focus on ambiance
5. Change program names
What is in a name? That which we would call a rose by any other name would smell as sweet.

-Juliet Capulet
Hog Island
Paradise Island
Connotations of Quality

<table>
<thead>
<tr>
<th>Tumbling</th>
<th>Gymnastics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sailing</td>
<td>Yachting</td>
</tr>
<tr>
<td>Reservoir</td>
<td>Lake</td>
</tr>
<tr>
<td>Day Care</td>
<td>Child Development Center</td>
</tr>
<tr>
<td>Par 3 Golf Course</td>
<td>Executive Golf Course</td>
</tr>
<tr>
<td>Hobby Shop</td>
<td>Skill Development Center</td>
</tr>
<tr>
<td>Gym</td>
<td>Fitness Center</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>Visitor Protection</td>
</tr>
<tr>
<td>Staff training</td>
<td>Career Development Training</td>
</tr>
<tr>
<td>Calisthenics</td>
<td>Aerobics</td>
</tr>
<tr>
<td>Outdoor Recreation</td>
<td>Outdoor Adventure</td>
</tr>
<tr>
<td>Facility Name</td>
<td>Price Expectation</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Ideal Health and Fitness Club</strong></td>
<td><strong>$439.90</strong></td>
</tr>
<tr>
<td>(offering a positive assessment of the benefits provided by the facility)</td>
<td></td>
</tr>
<tr>
<td><strong>Weights N’ Bikes Exercise Center</strong></td>
<td><strong>$344.00</strong></td>
</tr>
<tr>
<td>(focusing on the facility’s attributes and amenities)</td>
<td></td>
</tr>
<tr>
<td><strong>No name</strong>: “Everything you need for total fitness. Open 7 days a week.”</td>
<td><strong>$302.00</strong></td>
</tr>
</tbody>
</table>
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
4. Focus on ambiance
5. Change program names
6. Link to external recognition
RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

• About quality
• About cost of delivering a service

Value = \frac{\text{Quality of Services}}{\text{Price paid}}

In the past, this ratio was kept high by low price. **BUT**
(i) Now self-generated revenues are replacing tax subsidies, so prices rise
(ii) Quality expectation of users have risen
Users Have No Knowledge of a Service’s Costs

- Assume the price is set to cover costs
- No conscious thought about it
  
  **SO**

- Awareness of costs will change perceptions of what constitutes a fair price
Mean Reference Price for Users of Public Swimming Pools

Source: McCarville and Crompton (1987)
Mean Reference Price for Nonusers of Public Swimming Pools

Source: McCarville and Crompton (1987)
Resident User Attitudes Toward Resident Fees Before and After Being Presented with Information (n=303)

<table>
<thead>
<tr>
<th>Response</th>
<th>Attitudes</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before being given any information</td>
<td>Upon being given $8 price of substitutes information</td>
<td>Upon being given $11 cost of provision information</td>
</tr>
<tr>
<td>Too High Percent</td>
<td>3.0</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>About Right Percent</td>
<td>87.5</td>
<td>81.2</td>
<td>50.8</td>
</tr>
<tr>
<td>Too Low Percent</td>
<td>8.9</td>
<td>14.2</td>
<td>37.6</td>
</tr>
<tr>
<td>Undecided Percent</td>
<td>0.7</td>
<td>2.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Total Percent</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Reiling, Crinet and Oltmanns, 1988
Residents’ and Nonresidents’ Attitudes Toward Hoover Powerplant Fees (Before Information and After Two Sets of Information)

<table>
<thead>
<tr>
<th>Attitude</th>
<th>Before Information (Percentage of Respondents)</th>
<th>After Cost-of-Other-Sites Information (Percentage of Respondents)</th>
<th>After Cost-of-Other-Sites and Cost-of-Provision Information (Percentage of Respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Too high</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>21.5%</td>
<td>14.5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>11.9</td>
<td>8.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Too low</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>3.4</td>
<td>10.4</td>
<td>16.5</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>1.7</td>
<td>5.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Just right</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>65.1</td>
<td>68.6</td>
<td>49.6</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>79.5</td>
<td>79.5</td>
<td>71.4</td>
</tr>
<tr>
<td>Undecided</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>9.9</td>
<td>6.6</td>
<td>21.5</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>6.9</td>
<td>6.6</td>
<td>11.8</td>
</tr>
<tr>
<td>Total Number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residents</td>
<td>1,027</td>
<td>1,022</td>
<td>996</td>
</tr>
<tr>
<td>Nonresidents</td>
<td>1,838</td>
<td>1,789</td>
<td>1,744</td>
</tr>
</tbody>
</table>

Source: Schwer and Daneshvary (1997)
• Principle of **Dual Entitlement**:  
  – If costs are **controllable** by the agency, then price increases will be considered unfair.
A hardware store has been selling snow shovels for $15. The morning after that a large snow storm, the store raises the price to $20.

Please rate this action as:

- Completely fair
- Acceptable
- Unfair
- Very unfair
• Principle of **Dual Entitlement**:  
  – If costs are *controllable* by the agency, then price increase will be considered unfair.  
  – If costs are *uncontrollable* by the agency, then price increase will be accepted.
• If a price increase is aligned with, and proportionate to, an increase in the costs of a program, then users are likely to view costs as being beyond the agency’s control
  – Large increases in gasoline or electricity prices
  – Increases in minimum wage; or wages needed to obtain qualified staff
  – Changes in elected officials’ subsidy level polices
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- Assimilation-contrast theory

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- Frequency of previous purchases
- External sources

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STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

•Raise price in nibbles not bites
Conceptualization of the Zone of Price Tolerance

- Assimilation
- Median of the reference price range
- Bargain Price
- Resistance Price

Either assimilation or contrast

Non-commitment zone

Contrast

Rejection

Non-commitment zone

Contrast
Guidelines for Width of Acceptance Zone

• Private sector: 15%-30% below regular price to be effective as a discount
  – Greater than 30%; not bona fide
  – 10% for price increases

• Public Parks and Recreation: maybe more scope at the high end because subsidies generate consumer surplus
# Acceptance of Price by Program Participants at Three Levels

<table>
<thead>
<tr>
<th>Activity</th>
<th>Existing Price</th>
<th>Low (50% of cost)</th>
<th>Medium (Break even)</th>
<th>High (Going rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
<td>$</td>
<td>Yes %</td>
</tr>
<tr>
<td>Swim Lessons</td>
<td>$8.00</td>
<td>100</td>
<td>10</td>
<td>92</td>
</tr>
<tr>
<td>Youth Swim</td>
<td>$0.50</td>
<td>94</td>
<td>.50</td>
<td>84</td>
</tr>
<tr>
<td>Aerobic fitness</td>
<td>$12.00</td>
<td>78</td>
<td>14</td>
<td>59</td>
</tr>
<tr>
<td>Weight Conditioning</td>
<td>$16.00</td>
<td>55</td>
<td>16</td>
<td>52</td>
</tr>
<tr>
<td>Youth baseball</td>
<td>$10.00</td>
<td>69</td>
<td>20</td>
<td>72</td>
</tr>
<tr>
<td>Tennis lessons</td>
<td>$8.00</td>
<td>76</td>
<td>13</td>
<td>86</td>
</tr>
<tr>
<td>Preschool classes</td>
<td>$34.00/mo.</td>
<td>74</td>
<td>36</td>
<td>34</td>
</tr>
<tr>
<td>Photography classes</td>
<td>$13.00</td>
<td>52</td>
<td>25</td>
<td>53</td>
</tr>
<tr>
<td>Adult specialty crafts</td>
<td>$15.00</td>
<td>50</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>Youth dance classes</td>
<td>$12.00</td>
<td>68</td>
<td>14</td>
<td>67</td>
</tr>
<tr>
<td>Cross country ski</td>
<td>$15.00</td>
<td>44</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Resident camping</td>
<td>$70.00</td>
<td>47</td>
<td>97</td>
<td>53</td>
</tr>
<tr>
<td>Whitewater raft trips</td>
<td>$18.00</td>
<td>60</td>
<td>23</td>
<td>22</td>
</tr>
</tbody>
</table>
Proportional Not Absolute Terms

• $10 \rightarrow $15 = $5 increase but is a 50% increase
  – May be rejected as outside the zone

• $70 \rightarrow $78 = $8 increase but is an 11% increase
  – May be accepted as within the zone
Implementing Price Increases Consistent with the Latitude of Price Acceptance

Latitude of price acceptance. No client resistance to these price increases

Price increase at year Y meets client resistance
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

• Raise price in nibbles not bites
  - Participant adjustment period
Participant Adjustment Period: A Consequence of Bites

If there is a price increase outside the latitude of acceptance there is likely to be a decline in use. However, after an initial period of time, users may psychologically adjust to the new reference price and regard it as “acceptable.”
Concept of Participant Adjustment

Period

Participant Adjustment Period
Length of Adjustment Period

• Availability of substitute suppliers

• Income level of the client group

• Magnitude of the increase
3 Mitigation Strategies

- If season passes are involved, “grandfather.” Invite early renewal. Core users (20-80 law)
3 Mitigation Strategies

• If season passes are involved, “grandfather.” Invite early renewal. Core users (20-80 law)
• Long time of advance notice
3 Mitigation Strategies

• If season passes are involved, “grandfather.” Invite early renewal. Core users (20-80 law)
• Long time of advance notice
• Principle of Dual Entitlement – demonstrate the increase is fair and not arbitrary
Per-Person Pricing
State Park Fee Change

An investment in conserving Texas for the future.
Texas State Parks are one of the best recreational values anywhere. They are relaxing, healthful, educational, low-priced and family-oriented, but most of all they are just a whole lot of fun!

When you compare our park prices to the cost of other types of entertainment, like a movie, sporting event or dining out, you will quickly see that a visit to a state park, state natural area or state historical park is a real bargain, especially if you are taking a family.

Questions you may have...

What is per-person pricing?

Per-person pricing is a method of charging fees on an individual basis. Each person is assessed an individual price of admission. This is the same practice as found at local movie theaters, special events and amusement parks.

Why the change to per-person pricing?

The Texas State Parks system will be changing from vehicular entry pricing to per-person pricing. (Some parks have successfully been using this pricing process since 1990.) With the new pricing change, each individual will be making a contribution to conserving and preserving the resource they are using. This will in time balance the costs associated with each individual visit. In the past, the pricing did not cover all the costs its occupants incurred. The change in pricing strategy will allow visitors to pay equally for their use on an individual basis and enable Texas Parks & Wildlife to expand and improve its products and services to you.

Who does per-person pricing affect?

Per-person pricing will affect everyone over 12 years old who visits a state park. Children aged 12 years and younger will be admitted free into the parks, except for some special tour admissions.

What about senior citizen discounts, if I am 65 years old or older?

If your 65th birthday was on or after September 1, 1995 and you are a Texas resident, you may receive a 50% discount off the regular park entrance fee, rounded to the nearest higher whole dollar. Non-residents of Texas will pay regular park entrance fees.

If your 65th birthday was before September 1, 1995, or you are a veteran with at least a 60% disability, you will continue to receive free entrance into state parks. This Beaumont Pass (commonly referred to as the Bluebonnet Pass) is an individual pass and is for both residents and non-residents of Texas.

When and where will per-person pricing begin?

Per-person pricing will begin system-wide at all state parks on Wednesday, May 1, 1996.

How will I benefit from per-person pricing at state parks?

We are facing over $200 million of critical repairs within state parks. Fee changes are one of many ways we are recovering costs to improve park facilities. Gradually, you will begin to see and use these improved facilities.

Don’t state parks receive support from our taxes?

No, the state parks no longer receive direct support from your general taxes. In 1992, the legislature cut this support in a push for governmental cost recovery. The Texas Parks & Wildlife Department as an agency does, however, receive a percentage of the tax on sporting goods purchases, with state parks only receiving a portion of the overall agency’s share.
Is it realistic for each state park to be self-sufficient?

No, the goal of the Public Lands Division is to improve the system as a whole by working toward system-wide self-sufficiency. We realize that every park does not have the ability to become self-sufficient, but the system does.

How much will my favorite park charge per-person?

It will depend because each park manager recommends the per-person price for that park, within the range of $1.00 to $5.00. The park managers know their customers and competitors better than anyone; therefore they are best able to meet their customers' needs and determine an appropriate price. Over 76% of the state parks will have a per-person price of $2.00 or less.

Some parks will be giving a discounted entrance price to those visitors who will be camping overnight at their park. Please call your park of destination or the Information Center for specific overnight admission prices.

How does my favorite park benefit from per-person pricing?

Each park will be contributing to the parks system as a whole. Under our Entrepreneurial Budget System, each park can keep a portion of all revenues generated for reinvestment into expanding programs, products and services. Your favorite park will benefit from strengthening the entire system. Individually, a given park might not be able to operate, but, as part of a system, it can be successful.

Is an annual pass available?

Yes, a new Gold Texas Conservation Passport (TCP) will be available for $50 on May 1, 1996. It will enable vehicular entry to state parks and wildlife management areas. A new Silver TCP ($25) will gain user entry to wildlife management areas. Passports enable the holder and those in the car to enter without paying the per-person admission price.

Who should I contact for more information?

There are five sources available to assist you with questions.

1) your local park manager
2) for rates and general information call the Information Center (1-800-792-1112)
3) web site: http://www.tpwd.state.tx.us
4) for reservations call the Central Reservation Center (512-389-8900)
5) write: Public Lands Division (Pricing)
   Texas Parks & Wildlife Department
   4200 Smith School Road
   Austin, Texas 78744-3292
Where the price has traditionally been zero, the implementation of any price often results in a significant attendance decline.
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

- Raise price in nibbles not bites
- Temporal reframing
Temporal Reframing

• Lengthening the time period over which a price is paid
  – The “pennies a day” approach
    $360 annual pass
    or
    $1 a day
Softball Price Increases

• $500 per team or ($3.50 per player per game)
• $500 -> $560 ($60 increase or 40 cents per player per game)
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

- Raise price in nibbles not bites
- Temporal reframing
- Anchoring
Anchoring

Initial information and end of scale numbers influence subsequent judgment of acceptability of price increases.
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

- Raise price in nibbles not bites
- Temporal reframing
- Anchoring
  - Price a new service realistically
Introductory Price Decay

- **Introductory period**
- **Introductory low price**
- **Regular price**

Sales

Time, weeks

- Introductory period
- After introductory period
Entrance Fee Evaluations at Selected National Wildlife Refuges

<table>
<thead>
<tr>
<th>National Wildlife Refuge</th>
<th>Sample Size</th>
<th>Entrance Fee is:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Too Low</td>
</tr>
<tr>
<td>Sacramento, CA</td>
<td>290</td>
<td>5</td>
</tr>
<tr>
<td>Aransas, TX</td>
<td>196</td>
<td>4</td>
</tr>
<tr>
<td>Dungeness, WA</td>
<td>404</td>
<td>3</td>
</tr>
<tr>
<td>Chincoteaque, VA</td>
<td>203</td>
<td>12</td>
</tr>
<tr>
<td>St. Catherine’s Creek, MS</td>
<td>98</td>
<td>15</td>
</tr>
<tr>
<td>Balcones, TX</td>
<td>84</td>
<td>4</td>
</tr>
<tr>
<td>Buenos Aries, AZ</td>
<td>167</td>
<td>14</td>
</tr>
<tr>
<td>Piedmont, GA</td>
<td>321</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>1763</td>
<td>6</td>
</tr>
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</table>

Source: Vaske, Donnelly and Taylor, 1999
### Perceptions of Appropriate Prices for Existing City Recreation Services

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Current Average Price ($)</th>
<th>Most Appropriate Price ($)</th>
<th>Price (%)</th>
<th>Per Visit Cost of Provision ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks, playgrounds, greenbelts</td>
<td>No Charge</td>
<td>0</td>
<td>83</td>
<td>4.00</td>
</tr>
<tr>
<td>Tennis</td>
<td>5.00</td>
<td>5.00</td>
<td>66</td>
<td>9.00</td>
</tr>
<tr>
<td>Swimming</td>
<td>2.00</td>
<td>2.00</td>
<td>72</td>
<td>9.00</td>
</tr>
<tr>
<td>Golf</td>
<td>11.00</td>
<td>11.00</td>
<td>53</td>
<td>19.00</td>
</tr>
<tr>
<td>Recreation centers</td>
<td>3.00</td>
<td>3.00</td>
<td>68</td>
<td>10.00</td>
</tr>
<tr>
<td>Organized athletics</td>
<td>3.80</td>
<td>3.80</td>
<td>62</td>
<td>6.00</td>
</tr>
<tr>
<td>Outdoor nature programs</td>
<td>2.00</td>
<td>2.00</td>
<td>67</td>
<td>9.00</td>
</tr>
<tr>
<td>Senior Citizen programs</td>
<td>1.00</td>
<td>1.00</td>
<td>68</td>
<td>6.00</td>
</tr>
<tr>
<td>Arts facilities or programs</td>
<td>2.00</td>
<td>2.00</td>
<td>62</td>
<td>6.00</td>
</tr>
<tr>
<td>Community education programs</td>
<td>2.00</td>
<td>2.00</td>
<td>62</td>
<td>12.00</td>
</tr>
<tr>
<td>Programs for people with disabilities</td>
<td>No Charge</td>
<td>0</td>
<td>90</td>
<td>11.00</td>
</tr>
</tbody>
</table>
## Perceptions of Appropriate Prices for Two Proposed New Services

### Activity A

<table>
<thead>
<tr>
<th>Price ($)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No charge</td>
<td>16</td>
</tr>
<tr>
<td>.75</td>
<td>20</td>
</tr>
<tr>
<td>1.25</td>
<td>28</td>
</tr>
<tr>
<td>1.75</td>
<td>14</td>
</tr>
<tr>
<td>2.25</td>
<td>7</td>
</tr>
<tr>
<td>3.00</td>
<td>15</td>
</tr>
</tbody>
</table>

### Activity B

<table>
<thead>
<tr>
<th>Price ($)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No charge</td>
<td>5</td>
</tr>
<tr>
<td>1.00</td>
<td>19</td>
</tr>
<tr>
<td>2.00</td>
<td>33</td>
</tr>
<tr>
<td>3.00</td>
<td>25</td>
</tr>
<tr>
<td>4.00</td>
<td>4</td>
</tr>
<tr>
<td>5.00</td>
<td>14</td>
</tr>
</tbody>
</table>
For Introductory Trial Use Zero Price

• More response because no monetary risk

• Avoids an inadvertent reference price
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

• Raise price in nibbles not bites
• Temporal reframing
• Anchoring
  - Price a new service realistically
  - Purposeful anchoring
    ✓ Decoy anchors
A store owner has two camel hair jackets priced at $100 and $150 and finds that the more expensive jacket is not selling.

A new camel hair jacket is added and displayed for $250.

The new jacket does not sell, but sales of the $150 jacket increase.
The Role of the Fish Sandwich

• A concession stand in an outdoor aquatic facility sold traditional snack foods: Hot dogs, hamburgers, sodas, shaved ice AND a grilled fish sandwich.

• Only 50 fish sandwiches were sold all summer at 6.95 BUT

• “It made paying $3.95 for a hamburger look like a bargain”
A community recreation center offers a variety of exercise classes. All its classes have similar features and the costs associated with offering them are similar. They are one hour long, use qualified instructors, and meet two times a week for four weeks (i.e. 8 sessions). The center is starting a new yoga class.

The center’s managers are soliciting input on the fair price to charge participants in the new yoga class. The sample was randomly split into five groups
Information relating to existing fitness programs

<table>
<thead>
<tr>
<th>Exercise</th>
<th>Reference Prices Group 1</th>
<th>Reference Prices Group 2</th>
<th>Reference Prices Group 3</th>
<th>Reference Prices Group 4</th>
<th>Reference Prices Group 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boot Camp</td>
<td></td>
<td></td>
<td>$110</td>
<td>$130</td>
<td>$250</td>
</tr>
<tr>
<td>Pilates</td>
<td>$85</td>
<td>$85</td>
<td>$85</td>
<td>$85</td>
<td>$85</td>
</tr>
<tr>
<td>Aerobics</td>
<td>$70</td>
<td>$70</td>
<td>$70</td>
<td>$70</td>
<td>$70</td>
</tr>
<tr>
<td>Spinning</td>
<td>$45</td>
<td>$45</td>
<td>$45</td>
<td>$45</td>
<td>$45</td>
</tr>
<tr>
<td>Zumba</td>
<td>$15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Information relating to existing fitness programs

<table>
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<th>Reference Prices Group 5</th>
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<td></td>
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<tr>
<td>Pilates</td>
<td>$85</td>
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<td>$85</td>
<td>$85</td>
<td>$85</td>
</tr>
<tr>
<td>Aerobics</td>
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<td>$70</td>
<td>$70</td>
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</tr>
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<td>Spinning</td>
<td>$45</td>
<td>$45</td>
<td>$45</td>
<td>$45</td>
<td>$45</td>
</tr>
<tr>
<td>Zumba</td>
<td>$15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What is the fair price to charge for a yoga class?

<table>
<thead>
<tr>
<th>Exercise</th>
<th>Group 1</th>
<th>Group 2</th>
<th>Group 3</th>
<th>Group 4</th>
<th>Group 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yoga class</td>
<td>$58.52</td>
<td>$65.54</td>
<td>$74.69</td>
<td>$72.12</td>
<td>$75.60</td>
</tr>
</tbody>
</table>
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

• Raise price in nibbles not bites
• Temporal reframing
• Anchoring
  - Price a new service realistically
  - Purposeful anchoring
    ✓ Decoy anchors
    ✓ Numeric anchors
San Francisco Exploratorium

Two Questions:
1. Is the height of the tallest redwood tree more or less than 1,200 feet?
   OR
   More or less than 180 feet?
2. What is your best guess of the height of the tallest redwood?
Two Questions:

1. Is the height of the tallest redwood tree more or less than 1,200 feet?

   OR

2. What is your best guess of the height of the tallest redwood?

   Average estimates were 844 feet and 282 feet.
Anchoring Admission Prices

<table>
<thead>
<tr>
<th>Service</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekend admission</td>
<td>$10</td>
</tr>
<tr>
<td>Under 16 weekend admission</td>
<td>$5</td>
</tr>
<tr>
<td>Weekday admission</td>
<td>$8</td>
</tr>
<tr>
<td>Under 16 weekday admission</td>
<td>$4</td>
</tr>
<tr>
<td>After 4pm admission</td>
<td>$5</td>
</tr>
<tr>
<td>Children under 3</td>
<td>free</td>
</tr>
</tbody>
</table>
Anchoring Admission Prices with High Numbers

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Today’s air temperature</td>
<td>30°C</td>
</tr>
<tr>
<td>Number of staff on duty</td>
<td>14</td>
</tr>
<tr>
<td>Weekend admission</td>
<td>$10</td>
</tr>
<tr>
<td>Under 16 weekend admission</td>
<td>$5</td>
</tr>
<tr>
<td>Weekday admission</td>
<td>$8</td>
</tr>
<tr>
<td>Under 16 weekday admission</td>
<td>$4</td>
</tr>
<tr>
<td>After 4pm admission</td>
<td>$5</td>
</tr>
<tr>
<td>Children under 3</td>
<td>free</td>
</tr>
</tbody>
</table>
## Anchoring Admission Prices with Low Numbers

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of staff on duty</td>
<td>3</td>
</tr>
<tr>
<td>Number of lifeguards on duty</td>
<td>7</td>
</tr>
<tr>
<td>Weekend admission</td>
<td>$10</td>
</tr>
<tr>
<td>Under 16 weekend admission</td>
<td>$5</td>
</tr>
<tr>
<td>Weekday admission</td>
<td>$8</td>
</tr>
<tr>
<td>Under 16 weekday admission</td>
<td>$4</td>
</tr>
<tr>
<td>After 4pm admission</td>
<td>$5</td>
</tr>
<tr>
<td>Children under 3</td>
<td>free</td>
</tr>
</tbody>
</table>

Do you consider these prices to be (check one)

[ ] 5 [ ] 4 [ ] 3 [ ] 2 [ ] 1

Excellent value for money  Good value for money  Mediocre value for money  Poor value for money  Very poor value for money
Value for Money Results

High numbers
3.39

Low numbers
3.11
Experiment 2

A community recreation center offers a variety of exercise classes. All its classes have similar features and the costs associated with offering them are similar. They are one hour long, use qualified instructors, and meet two times a week for four weeks (i.e. 8 sessions). The center is starting a new yoga class.

The center’s managers are soliciting input on the fair price to charge participants in the new yoga class. The sample was randomly split into five groups
Which Presentation Will Lead to a Higher Order of Reference Price for Yoga?

<table>
<thead>
<tr>
<th>Reference Price (Descending order)</th>
<th>Reference Price (Ascending order)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boot camp $110</td>
<td>Spinning $45</td>
</tr>
<tr>
<td>Pilates $85</td>
<td>Aerobics $70</td>
</tr>
<tr>
<td>Aerobics $70</td>
<td>Pilates $85</td>
</tr>
<tr>
<td>Spinning $45</td>
<td>Boot camp $110</td>
</tr>
</tbody>
</table>

Respondents were asked:
What is the fair price to charge for a yoga class that is one hour long, uses a qualified instructor and meets three times for four weeks? $____________________________
Results for Yoga Class Prices

Descending order
$75.95

Ascending order
$67.39
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

- Raise price in nibbles not bites
- Temporal reframing
- Anchoring
  - Price a new service realistically
  - Purposeful anchoring
  - Ensure consistency among related services
Ensure Consistency Among Related Services

• Consistency within a similarity set e.g. a division: Athletics, aquatics, arts, etc.

OR

• Consistency within a facility
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

- Raise price in nibbles not bites
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  - Price a new service realistically
  - Purposeful anchoring
  - Ensure consistency among related services
  - Validate large price increases with prices charged by other suppliers
Validate Large Price Increases with Prices Charged by Others

• Comparative pricing to persuade or re-assure people that an agency’s prices are better than those of its competitors
## Comparative Boat Registration Fees

<table>
<thead>
<tr>
<th>Description</th>
<th>Texas</th>
<th>Florida</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>16’ and under</td>
<td>$18.00</td>
<td>$27.50</td>
<td>$10.60</td>
</tr>
<tr>
<td>16’ – 26’</td>
<td>$27.00</td>
<td>$43.50</td>
<td>$60.00</td>
</tr>
<tr>
<td>26’ – 40’</td>
<td>$36.00</td>
<td>$107.50</td>
<td>$162.00</td>
</tr>
<tr>
<td>Over 40’</td>
<td>$45.00</td>
<td>$171.50</td>
<td>$186.00</td>
</tr>
<tr>
<td>State</td>
<td>Resident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------</td>
<td>----------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td></td>
<td>Small Game</td>
<td>General</td>
<td>Combination</td>
</tr>
<tr>
<td>Arkansas</td>
<td>$10.50</td>
<td>$25.00</td>
<td>$35.50</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$10.50</td>
<td>$21.00</td>
<td>$53.00</td>
</tr>
<tr>
<td>New Mexico</td>
<td>$9.50</td>
<td>$43.50</td>
<td>$47.00</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>$12.50</td>
<td>$44.75</td>
<td>$53.25</td>
</tr>
<tr>
<td><strong>Texas</strong></td>
<td><strong>N/A</strong></td>
<td><strong>$18.00</strong></td>
<td><strong>$30.00</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>$10.75</strong></td>
<td><strong>$33.56</strong></td>
<td><strong>$47.19</strong></td>
</tr>
</tbody>
</table>

(The average excludes Texas)
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

• Raise price in nibbles not bites
• Temporal reframing
• Anchoring
  - Price a new service realistically
  - Purposeful anchoring
  - Ensure consistency among related services
  - Validate large price increases with prices charged by other suppliers
• Price as a signal of quality
“Setting the right price in services is more than a matter of generating dollars today. It is also a matter of sending the right message about the service. Prices are evidence.” (Berry and Parasuraman 1991)
Scitovszky 1945:

“Few of us can appraise the qualities of an electric iron or of tooth paste, and the frequent introduction of new models and improvements prevents us from relying on experience ... More and more, therefore, the consumer of to-day has to judge quality by indices of quality ... “mass observation” of one’s friends and their wives shows that more often than not people judge quality by price” (p. 100).
A Traditional Economic Demand Curve and a Price-Quality Demand Curve

![Graph showing a Traditional Economic Demand Curve and a Price-Quality Demand Curve.](image-url)
“The word ‘cheap’ usually means inferior quality nowadays; and in the United States ‘expensive’ is in the process of losing its original meaning and becoming a synonym for superior quality. Worse still, one of the largest American breweries uses the advertising slogan: ‘Michelob, America’s highest-priced brew!’”

Scitovszky, 1945
Why Does Price Quality Exist? (only works if no other cues)

• Past experience is consistent with there being a price-quality relationship. Belief in the saying “You get what you pay for”

• The agency’s higher costs associated with a commitment to high quality

• Avoids the risk that inexpensive services may be less likely to give satisfaction
ST. MARTIN’S WC2 tel BO 071.836.1443
ACC 071.379.4444* T 0836.430944
AGATHA CHRISTIE’s

The Mousetrap
World’s longest ever run! 40th year
SORRY. No reduced prices at any time
From any source
Mon-Sat at 8:00. Mats Tue at 2:45. Sat at 5:00.
Consider:

• A campsite that is fully booked.
• A festival site that has reached capacity.
• A softball league that cannot accommodate more teams.
• A national park that closes its gates on peak days because it is deemed to be full.
• A decade long wait for a permit to raft on the Colorado River through the Grand Canyon.
• A recreation class that has reached capacity.
STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

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• Price as a signal of quality
• Customary pricing
Customary Pricing

• Keep price within the latitude of price acceptance and cut a program’s cost

• Always cut quantity, NEVER quality
  “The pain of low quality is remembered long after the joy of low price is forgotten”
A poor salesman sells on price, whereas a good salesman sells on the quality of the product.
How important is each of the following factors in your decision to have your child participate in youth sports with the Gloucester (Virginia) Parks and Recreation Department?  

<table>
<thead>
<tr>
<th>Factor</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>3.6</td>
</tr>
<tr>
<td>Time of Activity</td>
<td>3.9</td>
</tr>
<tr>
<td>Price</td>
<td>3.1</td>
</tr>
<tr>
<td>Program Quality</td>
<td>4.3</td>
</tr>
<tr>
<td>Coach’s Quality</td>
<td>4.3</td>
</tr>
<tr>
<td>Parks and Recreation’s Staff Quality</td>
<td>4.1</td>
</tr>
<tr>
<td>Knowing Other Participants in the Activity</td>
<td>2.6</td>
</tr>
</tbody>
</table>

N=505
An Illustration of Customary Pricing Applied to a Recreation Class

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Classes</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
<td>$50</td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td>$50</td>
</tr>
<tr>
<td>3</td>
<td>8</td>
<td>$50</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>$50</td>
</tr>
<tr>
<td>5</td>
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• Price as a signal of quality
• Customary pricing
The Genesis of Reference Price and its Applications in the Parks and Recreation Field

THEORETICAL GENESIS
- Adaptation-level theory
- Assimilation-contrast theory

RESIDUAL INFLUENCERS
- Prior Purchase experience
- Frequency of previous purchases
- Socio-demographic characteristics

CONTEXTUAL INFLUENCES
- Malleable
- Change in context, changes the reference price

NORMATIVE INFLUENCERS
- Equity: Community value system
- Prevailing cultural norms

INTERNAL REFERENCE PRICE

STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE

RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

RECONCILE REFERENCE PRICE INCONSISTENCIES WITH STRATEGIES EMANATING FROM PROSPECT THEORY
RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

\[ Value = \frac{\text{Quality of Services}}{\text{Price paid}} \]
RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

• About quality
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost

2. Detail all of a service’s attributes and the benefits it offers
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
• Social interaction with friends and family kin.
• Social interaction with previously unknown others.
• Ethnic and cultural identity
• A gain in prestige; social recognition; status. The mastery of particular skills may be regarded as a form of “conspicuous consumption,’ which brings forth peer group recognition.
• Excitement; an adrenaline rush; exhilaration.
• Ego-satisfaction of achievement and accomplishment; a desire to be successful.
What is this?
The Transformational Lens

*It is:*

- Enhanced self confidence
- Social recognition
- Excitement
- Ego-satisfaction of achievement
- Camaraderie
- Social interaction
- Sportsmanship
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
4. Focus on ambiance
Perceptions of Quality

Tangible, visible cues communicate quality:

“Most of us unconsciously turn detective... processing what we can see and understand to decipher what we cannot.”

(Berry & Bendapadi 2003)
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
4. Focus on ambiance
5. Change program names
What is in a name? That which we would call a rose by any other name would smell as sweet.

-Juliet Capulet
Hog Island
Paradise Island
## Connotations of Quality

<table>
<thead>
<tr>
<th>Activity</th>
<th>Connotation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tumbling</td>
<td>Gymnastics</td>
</tr>
<tr>
<td>Sailing</td>
<td>Yachting</td>
</tr>
<tr>
<td>Reservoir</td>
<td>Lake</td>
</tr>
<tr>
<td>Day Care</td>
<td>Child Development Center</td>
</tr>
<tr>
<td>Par 3 Golf Course</td>
<td>Executive Golf Course</td>
</tr>
<tr>
<td>Hobby Shop</td>
<td>Skill Development Center</td>
</tr>
<tr>
<td>Gym</td>
<td>Fitness Center</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>Visitor Protection</td>
</tr>
<tr>
<td>Staff training</td>
<td>Career Development Training</td>
</tr>
<tr>
<td>Calisthenics</td>
<td>Aerobics</td>
</tr>
<tr>
<td>Outdoor Recreation</td>
<td>Outdoor Adventure</td>
</tr>
</tbody>
</table>
Influence of Different Names for Fitness Facilities on Price Expectations

<table>
<thead>
<tr>
<th>Facility Name</th>
<th>Price Expectation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ideal Health and Fitness Club</strong> (offering a positive assessment of the benefits provided by the facility)</td>
<td>$439.90</td>
</tr>
<tr>
<td><strong>Weights N’ Bikes Exercise Center</strong> (focusing on the facility’s attributes and amenities)</td>
<td>$344.00</td>
</tr>
<tr>
<td>No name: “Everything you need for total fitness. Open 7 days a week.”</td>
<td>$302.00</td>
</tr>
</tbody>
</table>
Strategies for Enhancing Perceptions of Quality

1. Adding features without substantial additional cost
2. Detail all of a service’s attributes and the benefits it offers
3. Promote benefits
4. Focus on ambiance
5. Change program names
6. Link to external recognition
RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION

• About quality
• About cost of delivering a service

\[ \text{Value} = \frac{\text{Quality of Services}}{\text{Price paid}} \]

In the past, this ratio was kept high by low price. **BUT**
(i) Now self-generated revenues are replacing tax subsidies, so prices rise
(ii) Quality expectation of users have risen
Users Have No Knowledge of a Service’s Costs

- Assume the price is set to cover costs
- No conscious thought about it
- Awareness of costs will change perceptions of what constitutes a fair price
The Genesis of Reference Price and its Applications in the Parks and Recreation Field

**THEORETICAL GENESIS**
- Adaptation-level theory
- Assimilation-contrast theory

**RESIDUAL INFLUENCERS**
- Prior Purchase experience
- Frequency of previous purchases
- Socio-demographic characteristics

**CONTEXTUAL INFLUENCES**
- Malleable
- Change in context, changes the reference price

**NORMATIVE INFLUENCERS**
- Equity: Community value system
- Prevailing cultural norms

**INTERNAL REFERENCE PRICE**

**STRATEGIES DESIGNED TO BE CONSISTENT WITH REFERENCE PRICE**

**RECONCILE REFERENCE PRICE INCONSISTENCIES BY PROVIDING ADDITIONAL INFORMATION**

**RECONCILE REFERENCE PRICE INCONSISTENCIES WITH STRATEGIES EMANATING FROM PROSPECT THEORY**
Pricing Recreation and Parks Services: The Science and the Art

- John L. Crompton (2016)
- Sagamore Publishing
- [www.sagamorepublishing.com](http://www.sagamorepublishing.com)
- 1-800-327-5557