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Reference price based strategies: a key to raising revenues without alienating users

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The central principle for raising prices without alienating users is to ensure they remain within the latitude of the acceptance zone around their median reference price. The paper discusses four heuristics that leisure managers should embrace which are consistent with the principle and will avoid periodic larger increases that are outside the acceptance zone which leads to resistance. The most risk-free approach is to consistently impose small annual incremental increases in price. A second heuristic is anchoring from which five strategies emanate: (i) do not underprice new services; purposefully use (ii) decoy and (iii) numeric anchors to change users' perceptions of context; (iv) ensure price consistency among related services; and (v) use prices charged by other suppliers to validate a large price increase. The other two heuristics discussed in the paper are price as a signal of quality and customary pricing.

Keywords: behavioral pricing, latitude of acceptance, reference price, anchoring, price/quality relationship, customary pricing

Leisure managers are frequently under pressure from elected representatives to raise more revenue in order to reduce subsidies for services. A primary way to do this is to raise prices, but the challenge is to accomplish it without losing participants. For over 40 years, it has been recognized that people experience, observe, or acquire price information, store it in memory, and use it as an internal reference against which a judgment is made regarding the acceptability of a new price (Monroe, 1973). Thus, internal reference price is the primary standard against which the acceptability of a new price for a sport or leisure service is judged. This paper identifies four heuristics that provide a scaffolding for developing strategies that ensure price changes are consistent with reference price: (i) raise price in nibbles not bites; (ii) anchoring; (iii) recognize price may be a signal of quality; and (iv) customary pricing.

Two parameters define the boundaries of this paper. First, it is recognized that public sector pricing requires reconciliation of the ability to pay and the benefit principles of pricing. The ability to pay principle directs that no residents should be excluded because they cannot afford the price to participate, since leisure services offer economic and social returns to society that extend beyond the financial returns to a city's treasury. These wider benefits provide the rationale for subsidizing leisure services and the author has identified and discussed them elsewhere (Crompton, 2008a, 2008b). Ensuring access to services is accomplished by providing discounts to groups such as low-income residents, seniors, children, large households, and the unemployed. Discussion of such differential pricing is beyond the scope of this paper. The benefit principle directs that those

benefiting from a service should bear financial responsibility for its cost. The four heuristics discussed here are directed at operationalizing the benefit principle by raising prices so as to reduce consumers' surplus and tax subsidies, which are typically regressive, while not alienating clienteles.

A second boundary parameter is that space constraints limit the discussion to a subset of four pricing heuristics whose common denominator is that they are designed to ensure price changes are perceived by participants to be compatible with internal reference prices, in both immediate and long-term time periods. Another subset of pricing heuristics not discussed here is used to reconcile price inconsistencies with internal reference price by adopting strategies emanating from prospect theory. These include: enterprise fund effect, semantic framing of discounts and primaries, promotional price, bundling and unbundling services, hyperbolic discounting, endowment effect, sunk cost effect, and odd number pricing.

RAISE PRICES IN NIBBLES NOT BITES

Latitude of price acceptance is the range of prices around an internal reference price within which users have minimum price sensitivity (Kalyanaram & Little, 1994). Those within the range are assimilated and accepted, while those outside it are contrasted and rejected. In Figure 1, the low and high parameters of the latitude of price acceptance are shown as the bargain and resistance points, respectively. Conceptually, they can be derived by asking two questions: (a) What is the lowest price the target market will pay while still trusting the service's quality? and (b) what is the highest price the target market will pay? (Gabor & Granger, 1964, 1965). Concerns about the first question relate to the possibility of there being perceptions that low price is indicative of low quality. This relationship is discussed later in the paper. The focus at this point is on the second question, the highest price the market will tolerate.

The latitude of price acceptance zone in Figure 1 is shown as being asymmetrical. That is, the zone is narrower above the median reference price and wider below it. This asymmetric response to price changes is explained by prospect theory which recognizes that users are more sensitive to prices above a reference point (perceived loss) than to prices below it (perceived gain) (Kahneman & Tversky, 1979). Accordingly, they tend to perceive a reduction in price below an internal reference price to be smaller than it actually is. In contrast, when a price revision is higher than the median internal reference price, the increase is perceived to be larger than it actually is (Krishnamurthi, Mazumdar, & Raj, 1992).

Figure 1 shows "non-commitment" zones adjacent to the bargain and resistance points. These zones recognize the boundaries of the latitude of price acceptance are not fixed, but can be extended if contextual cues suggest there are good reasons for moving them. If a new price in the non-commitment zone is assimilated, then this adaptation will result in an incremental shift in the median of internal reference price. Thus, reference price and the latitude of acceptance are dynamic, adaptive concepts that change over time.

Types of service, different target markets, prices charged by other suppliers, frequency of purchase, degrees of loyalty, and nature of the existing price number, all contribute to the latitude of price acceptance varying among individuals.

The zone is likely to be wider for higher priced services. For example, an increase in a class fee from $10 to $15 (50%) may be rejected as being outside the latitude of acceptance, while raising another class fee from $70 to $77 (10%) is a larger absolute

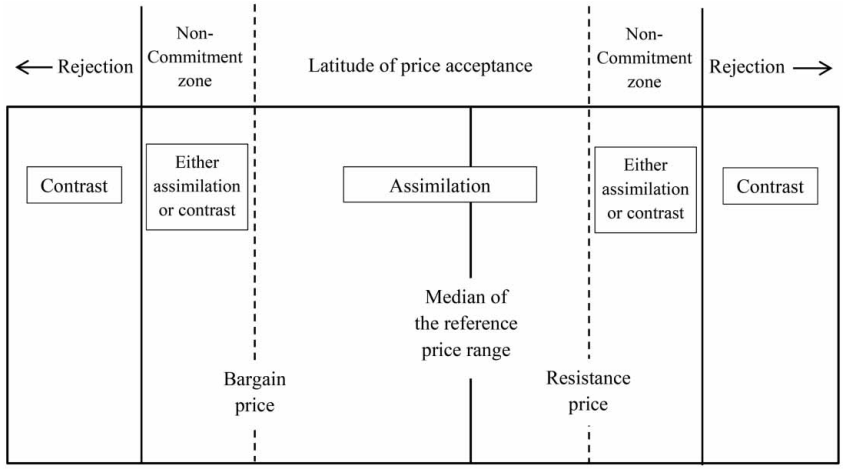

Fig. 1. Conceptualization of the Latitude of Price Acceptance

dollar amount, but may be perceived as being within the latitude of price acceptance. This is consistent with the Weber–Fechner "law" which, when adapted to the context of price, states that users perceive price differences in proportional and relative terms, not absolute terms (Gabor & Granger,1964; Kaman & Toman, 1970; Monroe & Lee, 1999). The focal point is not the dollar amount of difference, but rather it is the proportionate difference.

Availability of competitive suppliers and frequency of purchase are likely to be strong influences on both internal reference price and the latitude of price acceptance. They are also likely to increase with the income level of the target market. More discretionary income is likely to be associated with greater tolerance of price increases.

Those who are loyal to a program, instructor, facility, or agency are likely to have a wider latitude of price acceptance. They tend to focus on the benefits of the experience offered, rather than on the price. Deviations from the reference price must be large before they consider resistance. Those who are marginal or fringe users, rather than core users, are likely to be more focused on price increases and to have a smaller acceptance zone (Kalyanaram & Little, 1994).

The nature of the existing price number also is likely to exert influence. If it is a "rounded" number, such as $5, $10, or $20, then it is likely to be more accurately recalled and have a relatively narrow latitude of price acceptance. In contrast, if the price is $6.25, $9.30, or $17.45, then recall is likely to be more vague so the latitude of price acceptance is likely to be wider (Schindler & Kirby, 1997).

While there are multiple variables which influence the zone's width, as a point of departure research in the marketing field suggests that to trigger a purchase reaction a discount should be between 15 and 30% below the regular price (Della Bitta & Monroe, 1980; Gupta & Cooper, 1992; Marshall & Long, 2002). If the discount is greater than 30%, then it is likely to be below the acceptable bargain price (Figure 1) and prospective users are likely to be concerned that either the offer is not *bona fide* or its quality has been compromised (Della Bitta, Monroe, & McGinnis, 1981; Mazumdar, Raj, & Sinha, 2005). Given the asymmetrical reaction to price change shown in Figure 1, it seems likely that price increases small enough to

be perceived as being consistent with reference price generally should not exceed 10% in the private sector.

However, evidence suggests the resistance point that denotes the high end of the latitude of acceptance for public leisure services in some situations may be higher than studies in the private sector have reported. The tradition of subsidizing prices so they are low is likely to create substantial consumers' surplus, which may facilitate acceptance of relatively large proportional increases in price. This was demonstrated by an Oregon leisure agency which was confronted with having either to increase prices or reduce services. Among the 15 recreation programs whose users were surveyed, a remarkably high tolerance for price increases emerged. For example, among those paying for swim lessons, 100% and 76% reported a willingness to accept a 25% and 90% increase in price, respectively (Howard & Selin, 1987). Clearly, price increases of this magnitude could not be sustained indefinitely in future years, but these data suggest the tolerance for price increases is likely to be higher than that reported in private sector studies if the programs are subsidized below market rates.

The latitude of price acceptance suggests that whenever possible managers should make frequent small incremental price increases, rather than infrequent large price increases – "nibbles" rather than "bites". Raising prices within the latitude of acceptance zone is perhaps the most risk-free way for a leisure agency to increase revenues. A series of small incremental increases in price over a period of time – all of which fall within the latitude of price acceptance – is less likely to meet user resistance than a single major increase.

Typically, leisure service agencies do not raise their prices to keep pace with increases in costs. To rectify this situation, a firm policy should be established to raise prices every year as part of the annual budget review process to offset the inevitable increase in costs. If an agency, or its elected officials, decide to "hold the line" on price and reject an annual increase, they have probably created a future problem.

Too often, leisure managers set their prices for the (say) 20% of potential participants who cannot afford the break-even price, rather than providing a discount for those individuals and setting a regular price for the 80% who can afford the break-even price. This not only limits the immediate revenues received, but by establishing a low reference price it makes it likely there will be sustained revenue losses in the future.

Participant Adjustment Period: A Consequence of Bites

A price that has been charged for a season or more typically becomes the internal reference price irrespective of the level at which it is set. Thus, when users are asked if a price is too high, too low, or about right, 70–80% are likely to respond "about right" (Coalter, 2004; Duffield, Patterson, Neher, & Chambers, 2000; Fix & Vaske, 2007; Lundgren, Lime, Warzecha, & Thompson 1997; Ostergren, Solop, & Hagen, 2005; Reiling, Criner, & Oltmanns, 1988; Vaske, Donnelly, & Taylor, 1999). Any increases from this reference point are routinely accepted if they stay within the latitude of price acceptance (i.e. they are "nibbles"). However, when price increases become "bites" – that is, they are raised beyond the latitude of price acceptance – it is likely there will be clientele resistance. In these cases, the negative reaction is likely to be motivated as much by outrage or pique at its "unfairness", as by perceived inability to pay the new price.

This response is likely to be particularly pronounced if the price goes from zero to some monetary value for the first time. This was empirically verified in a study of visitors to a Corps of Engineers recreation area. Respondents who had paid admission to similar facilities during the past 12 months

were compared with those who reported not doing so. The former group:

> Were more willing to pay a "fair day-use fee", to support fees used to maintain favored day-use areas, and to pay fees sufficient to cover maintenance costs . . . and were also more in agreement with the notion that higher fees could be charged for more modernized sites. Those who had not paid fees for similar services over the past 12 months were more likely to report that they would no longer visit any Corps day-use areas if fees were initiated. (McCarville, Reiling, & White, 1996, p. 68)

The authors stated those unaccustomed to paying a price "often reported feeling victimized through the introduction of fees" (p. 74). A long-established norm was changed. It seems likely that those accustomed to not paying a price felt that any fee, regardless of its magnitude, violated their expectations. Their evaluation of fairness revolved around the issue of to pay or not to pay, whereas for those accustomed to paying a fee the issue was: How much is it fair for me to pay? Implementing new fees and increasing existing fees to a level outside the latitude of acceptance are likely to evoke different intensities of adverse responses with the former being perceived as a more radical shift in policy and, hence, generating more controversy.

Over time, adaptation to a price outside the latitude of acceptance takes place. A "bite" price that initially is perceived to be unfair is likely to slowly evolve into a revised reference price norm that is accepted by most people and is no longer perceived as unfair (Kahneman, Knetsch, & Thaler, 1986). This process represents a participant adjustment period. Its length will vary according to (a) magnitude of the increase, (b) availability of substitute service suppliers, (c) income level of the client group, (d) type of service offered, and (e) frequency of use.

Three strategies can be used to mitigate the effect of price increases outside the latitude of price acceptance and minimize the duration of the participant adjustment period. First, if annual or season passes are involved, then existing pass holders should be invited to renew them before the new prices become effective. They are likely to appreciate being given preferential treatment, and by the end of the year or season when their renewal is scheduled they are likely to have adapted to the new price so it has become their reference price.

A second strategy is to provide client groups with as much warning as possible of a forthcoming price increase. If awareness of such an increase is established in clients' minds some time before actual implementation, then at least some participant adaptation is likely to have taken place by the time the price change occurs. Thus, if prices are to be raised on May 1, they should be announced the previous December/January and be widely publicized so participants have time to adapt to the new price as the reference price.

A third strategy, derived from attribution theory (Kelly, 1973) and the Principle of Dual Entitlement (Kahneman et al., 1986), requires the agency to demonstrate to skeptical users that, despite its magnitude, the increase is fair. If it is attributable to an increase in costs or improvements in service quality, then the information should be provided to justify it. Thus, early work which tracked reactions to a fee program at a National Wildlife Refuge concluded, "If improvements are made at the time fees are initiated or increased, disapproval by the public is minimized" (McCurdy, 1970, p. 646). Similarly, if a large increase is attributable to a shift in elected officials' philosophy on cost recovery, then resistance is likely to be ameliorated if the rationale for the shift is explained.

ANCHORING

The first price of which people become aware serves as the anchor against which all subsequent price changes are compared. It is the most influential element in the formation of people's reference prices. Anchoring came to prominence in the fields of psychology and economics as a result of a series of experiments which demonstrated that initial information influences people's subsequent judgments (Tversky & Kahneman, 1974). A review of the anchoring heuristic literature concluded that in the 40 years since the concept came to prominence, a substantial body of research has shown the effects "to be extremely robust" (Furnham & Boo, 2011, p. 41).

Five strategies for keeping price changes consistent with reference price emanate from the anchoring heuristic. The first is to ensure that when a new service is launched, its price anchor is not too low. Second and third, numeric and decoy anchors, respectively, can be purposefully used to change the context so price increases are kept within the latitude of acceptance. Fourth, there should be consistency among related services, since an outlier price for one service may inadvertently serve as an anchor against which the price of related services will be evaluated. Fifth, the prices of other suppliers can be used as anchors to effectively change context and reference price.

Do Not Underprice New Services

Sometimes mangers offer a low price for a short period of time when a new program is introduced to induce people to try it. After the introductory period when people have experienced it, the low price is raised to a level commensurate with the program's quality and the target market's ability to pay. Essentially, the leisure agency is saying: "We are foregoing revenue now but, because we believe this is a good program that will appeal to many who are currently uncertain about its merit, we will recoup this money in the future from repeat visits." If a threshold number of those marginal users are not converted to repeat visitors and/or do not influence others to participate, then the agency will not recoup the initial lost revenues.

In a classic study in the marketing field, five new brands were introduced at a low introductory price in one set of stores without any indication this was a temporary promotional price, and at their regular price in a matched set of stores (Doob, Carlsmith, Freedman, Landauer, & Tom, 1969). The discounts used for the low introductory price ranged from 8% to 56%. After a short period of time varying from 1 to 3 weeks, the low introductory price was raised to the regular price. Although the discounts varied widely, the general sales patterns at the matched stores were similar for all five brands.

The low introductory price was successful in its goal of attracting large initial sales. However, over the 20-week time period of the study, the total volume of sales was greater in the regular price stores, even though the sales for the first 1–3 weeks in those stores were much lower. The impact on revenues was even more evident, since the regular price stores did not lose revenues from initial discounting. The authors concluded, "These studies indicate that introducing products at a lower than usual price is harmful to final sales" (Doob et al., 1969, p. 349). The study confirms the adage: You can always bring the price down, but you cannot easily bring it up. The results have clear implications for leisure managers. They point out the most important pricing decision is the initial price that is charged, because this first price becomes an anchor which firmly establishes the internal reference price for the service in a user's mind. Hence, it becomes the criterion against which the acceptability of subsequent price revisions is compared.

The danger of starting with a low introductory price is that an unintended internal reference price is created. When introductory price purchasers subsequently are confronted with a big increase up to the regular price, the service is likely to be regarded as overpriced and the price viewed as unacceptable. For example, if a city opens a new ice rink, the purpose of offering a low introductory price of (say) $5 rather than the regular price of $10 is to persuade those who have only a marginal interest and who would not go at the $10 price to try it. The anticipation is that some of the hesitant marginal users will be converted into regular users. However, the danger is the first price becomes the reference price for both core users and marginal participants. To avoid this danger, the introductory low price should be clearly positioned as a promotional price: "The price to ice skate is $10. However, to give people an opportunity to try it at our new facility, for the first 2 weeks only we will have a special promotional price of $5." All potential users now understand the promotional price is for only 2 weeks and the regular price of $10 is established as the reference price.

An agency is likely to have more flexibility in the first pricing decision than in any subsequent decisions, since these will always be constrained by client groups relating the appropriateness and acceptability of price increases back to the **anchor price. Once a low price is embodied in the public psyche, it is difficult to dislodge and overcome. Nor is there much pressure to do so until legislative bodies demand increased revenues in response to a budget crisis. By that time the rules of the game have been set, and subsequent changes are likely to invoke outrage among users.

Evidence suggests that offering a free trial rather than a low introductory price is likely to be a superior strategy for two reasons. First, there is no risk of monetary loss to the user. Second, zero price is qualitatively different from a discount. If no other similar services are offered at zero price, then there will be no expectation the new offering will be free. There is awareness this is being done for a short introductory period only, so it will not inadvertently become the reference price. When a discounted price is charged, there is some risk it will be subconsciously absorbed as a reference anchor even when managers emphasize it is only for a short introductory period. A series of experiments on this issue led the authors to conclude: "A free promotion is more beneficial for a marketer than offering a product at a discounted price in the long term ... Offers with low prices may lead to more devaluation, whereas a free offer may not lead to any devaluation at all" (Palmeira & Srivastara, 2013, p. 645).

Purposeful Anchoring

Anchoring can be purposefully used to change people's reference price and, thus, ameliorate resistance to a price that otherwise would be outside their latitude of acceptance. The authors of the seminal experiments on anchoring pointed out, "In many situations people make estimates by starting from an initial value that is adjusted to yield the final answer" and that, "Different starting points yield different estimates, which are biased toward the initial values" (Tversky & Kahneman, 1974, p. 1129). These insights have resulted in the widespread use of decoy and numeric anchors.

Decoy anchors

There are three managerial strategies associated with decoy anchors: (i) decoys may raise revenues from other services in the range; (ii) they may have an ordering effect; and (iii) they can be used to frame and adjust queueing expectations.

In 1982, the results of a series of experiments were explained by "asymmetric dominance" (Huber, Payne, & Puto, 1982). This is

sometimes called the decoy effect. It occurs when a service is deliberately designed to offer inferior value to other services in the range for the purpose of increasing the sales of those other services. Effectively, the new offering is a decoy which is unlikely to be perceived as a desirable option, but can enhance the acceptability and purchase of other services in the range. It leads to the counter-intuitive recognition that there are times when revenues from a division can be increased by adding a service that very few have any interest in purchasing.

Experiments confirming the robustness of "extremeness aversion" have resulted in decoys becoming ubiquitous. Restaurants, for example, invariably include high-priced wines on a menu, since this raises the price acceptability level of their other wines. Consider the following vignettes:

- A city opened a new concession-stand at its outdoor aquatic facility, which can hold approximately 700 people. It was highly successful, making sufficient profits to recover the cost of the equipment in 2 years. It sold traditional snack foods: hot dogs, hamburgers, sodas, and shaved ice; but it also served the health conscious by offering chicken, Caesar salads, and grilled fish. The grilled fish was an unusual item. How many mouths watered for a fish sandwich on a hot summer day? The answer was, not many, and fewer than 50 such sandwiches were sold all summer. However, sales were not the objective. Fish offered a healthy choice, but also an expensive choice. They charged $6.95 for the fish sandwich which was a lofty price for a concession-stand item, but that was the point. The fish made paying $3.95 for a hamburger look like a bargain. The manager reported, "We didn't sell much fish, but it made the hamburger look cheap."
- Broadway theaters charge extreme prices for prime seats to popular shows. $500 may seem outrageous to most theater-goers who would not dream of paying that much for a ticket, but it makes whatever they do pay (say $200) seem like a deal (Blinder, Caunetti, Labow, & Rudd, 1998).

A second strategic implication derived from decoy anchoring is potential ordering effect. Users are likely to form a higher internal reference price when prices in a service line (e.g. aquatics or recreation activities) are presented to them in descending order (from high to low), than when they see them in ascending order (from low to high). The order bias influences communication strategies. When presenting a range of services within the same division, the highest priced services should be presented first since this will make all the subsequent prices appear more reasonable (Morris & Morris, 1990). When forming their reference prices, people apparently give greater weight to the prices they see first:

- Assume an agency is pricing a new 10 session aerobics class at $60. If 10 session classes for boot camp, jazzercise, yoga, and spinning are priced at $100, $80, $65, and $50, respectively, and presented in that order, then it is likely that the new aerobics price will be better accepted than if the prices were presented in the reverse order

A final implication of decoy anchoring is it can be used to manage customers' expectations. Since the composite price for a leisure experience includes the investment of time, decoy anchors are sometimes used to ameliorate exasperation with queues. Theme parks, for example, have signs at popular rides that say, "Wait is 30 minutes from this point." They are aware it will take 20 minutes, but by creating a decoy anchor they hope to change customer reaction from frustration with a 30 minute wait, to delight that it was "only" 20 minutes.

Numeric anchors

There are two types of numeric anchors: Contextual relevant and contextual irrelevant. Their relationship can usefully be conceptualized as a continuum along which anchors are arranged according to degree of contextual relevancy. *Contextual relevant* anchor numbers are associated with dimensions or attributes of a program or facility, but they have no obvious influence on price. Nevertheless, in the passive processing of numeric anchors, the association with the context appears likely to endow them with more plausibility than contextual irrelevant anchors.

Table 1 reports results of an experiment of an application of contextual relevant anchors in the context of an aquatic facility undertaken by the author. When respondents were asked their perceptions of value for money on a 5-point scale, the group given the scenario headed by the numbers 30 and 14 reported values that were 9% higher than the group given the scenario headed by the numbers 3 and 7. The price structures of both scenarios were the same. The air temperature and number of staff or lifeguards on duty are irrelevant to the pricing structure. However, placing them at the top of the price list appears to have had a priming effect. First perceptions of the list may linger in the mind and cause the admission price numbers to appear smaller.

Contextual irrelevant numeric anchors use numbers that clearly have no relationship to a program or its context and which are obviously arbitrary. In the marketing and psychology fields, a substantial number of empirical studies have demonstrated that such implausible anchors can, nevertheless, be effective: "A key finding of anchoring research is that anchors that are obviously random can be just as effective as potentially informative numbers" (Kahneman, 2012, p. 225).

Typical of such studies in the context of price was an experiment which used six consumer products. The retail price of each was approximately $70. After introducing the products, subjects were asked whether they would buy each good for a dollar figure equal to the last two digits of their Social Security Number. After this Accept/Reject response, they stated their dollar maximum willingness-to-pay for the product. Subjects with above-median Social Security Numbers stated values from 57% to 107% greater than subjects with below-median numbers. The subjects' evaluations of the product's value were clearly biased by the first price mentioned to them, even though that first price was random (Ariely, Loewenstein, & Prelec, 2003).

In all these experiments reported in the marketing and psychology fields, the first stage of this standard protocol primes subjects by requiring them to cognitively process a stimulus that influences the subsequent value judgment. However, this cognitive anchor is created by an experimenter or external source and is contrived for laboratory experiments; it cannot be operationalized by leisure managers in a field situation. Any processing of a numeric anchor in the field is likely to be passive, minimal, and superficial. It is unlikely to be processed into short-team memory, and so will not play a role in subsequent evaluation. This makes it unlikely that non-contextual relevant numeric anchors will be a viable tool for leisure managers.

Ensure Consistency Among Related Services

Leisure agencies offer an array of services, which many will view as an inter-related, coherent set of offerings, rather than as a loose assembly of unrelated programs. Thus, the internal reference price for one of them is likely to influence, and be influenced by, the reference prices for other services that are perceived to be similar. The similarity set often comprises other programs

Table 1. Anchoring Admission Prices with Contextual Relevant High Numbers

The public outdoor pool is a standard 25 m, 8-lane facility. The admission prices posted at the entrance are below:

	Item	Treatment A	Control	Treatment B
Decoys	Today's air temperature		–	30°C
	Number of staff on duty	3	–	14
	Number of lifeguards on duty	7	–	–
Admission information	Weekend admission	$10	$10	$10
	Under 16 weekend admission	$5	$5	$5
	Weekday admission	$8	$8	$8
	Under 16 weekday admission	$4	$4	$4
	After 4 pm admission	$5	$5	$5
	Children under 3	Free	Free	Free
Perception of value		3.11	3.28	3.39
Respondents were asked: Do you consider these prices to be (check one)				
[ ] Excellent value for money	[ ] Good value for money	[ ] Mediocre value for money	[ ] Poor value for money	[ ] Very poor value for money

within the same division of an agency (e.g. athletics, aquatics, recreation classes, parks, arts, recreation facilities, and special events). Thus, the notion of price acceptance may extend beyond an individual program to the range of services within a division. The collective reference price may approximate the median price in the range of reference prices for all programs in the division. Any new programs may need to be priced around that collective reference price for the prices to be accepted without resistance (Petroshius & Monroe, 1987).

The inter-relationship of reference prices within a similarity set (assumed to be a division) directs there should be consistency of price among programs within it. For example, when the price of an aquatic program is either established for the first time or revised, users' internal reference prices for it are likely to be influenced by their perceptions of its relationship to other aquatic programs and their reference prices for those programs. Consider the following example:

- A tanning solarium was located at a public swimming pool. The price for using the solarium was set at $10 per 30-minute session, which was the going rate for solarium use at commercial installations in the city. The intent was to use the solarium to generate funds that could be used to offset the substantial losses incurred in operating the pool, without undercutting the private sector. The installation and the services associated with the solarium were high quality, but the venture was a

failure. It appears the public could not accept paying $10 for a session in the solarium when admission to the swimming pool was only $2.50. The solarium's price was incompatible with the public's reference price for services offered at a public pool.

Validate Large Price Increases by Comparing them to Prices Charged by Other Suppliers

Simply informing people about the prices charged by others for a similar service may result in a new price being viewed more favorably. Given higher comparative price information, users may be persuaded to move their reference price higher and accept the new price (Della Bitta et al., 1981; Urbany, Bearden, & Weilbaker, 1988; Veblen, 1899). The example in Table 2 shows how the Texas Parks and Wildlife Department used this strategy to illustrate to stakeholders that the substantial price increases they were proposing to implement in boat registration, hunting, and combined license prices were reasonable. Their comparison with the prices charged by adjacent states was a successful strategy; there was no protest.

Several studies have investigated the influence exerted by knowledge of external prices for comparable leisure services on changing willingness to pay a higher price. In an early study of this issue a probability sample of 254 adult residents was asked: "What would you expect to pay for a swim at a city pool?" Those who were provided with the much higher external price charged for swimming at a commercial pool in the city reported a higher price expectation than those who did not receive this information. Among pool users, the commercial pool price information raised reference price by 13%, while among nonusers the increase was 26% (McCarville & Crompton, 1987). Presumably, after being alerted to the commercial price, nonusers wanted to see a higher price charged at the public pool in order to reduce the amount of tax subsidy they were required to provide.

RECOGNIZE PRICE MAY BE A SIGNAL OF QUALITY

Leisure services are intangible. Because they cannot be touched or felt in advance, decisions by those who have no experience with a service are based on expectations and cues put forward by an agency. Price is one cue. It has to be high enough to ensure confidence in a program's quality, but not so expensive that the target market will refuse to purchase it. Thus, in some situations, price is a market signal. It has been noted, "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 & Parasuraman, 1991, p. 104). Market signals have been defined as, "Activities which, by design or accident, alter the benefits of, or convey information to, other individuals in the market" (Spence, 1974, p. 1). Signals function as informational cues when the attributes of a service are unknown and unobservable prior to purchasing it. The void created by this information gap may be filled by price, because price is observable and in most people's minds is correlated with quality.

The suggestion that price could be used by purchasers to evaluate quality was first mooted 70 years ago when it was noted that as the array of goods available for purchase proliferated, it was no longer possible for purchasers to use experience to evaluate the quality of all of them so "more often than not people judge quality by price" (Scitovszky, 1945, p. 100). The author suggested "it is perfectly rational" (p. 103) to make this association about services whose quality is unknown before they are tried, because in most contexts a high price reflects either a high demand for superior quality or high production costs associated with high quality.

Table 2. Comparing Hunting License Prices with those of Surrounding States

	Resident			Non-Resident	
State	**Small Game**	**General**	**Combination**	**Small Game**	**General**
Arkansas	$10.50	$25.00	$35.50	$65.00	$185.00
Louisiana	$10.50	$21.00	$53.00	$86.00	$160.50
New Mexico	$9.50	$43.50	$47.00	$79.00	$348.00
Oklahoma	$12.50	$44.75	$53.25	$85.00	$301.50
Texas	**N/A**	**$18.00**	**$30.00**	**$75.00**	**$205.00**
Average (excluding Texas)	$10.75	$33.56	$47.19	$78.75	$248.75

This was illustrated in an experimental study of differently priced campgrounds:

- Subjects for the study were drawn from a pool of state park campers. It examined the amenities (facilities, services) people expected at differently priced state campgrounds. Subjects were presented with one of three prices, so the three treatment groups were designed to represent a low-, average-, and high-priced campground. They were given a list of 18 campground amenities (flush toilets, wood for sale, coin-operated hot showers, etc) and asked whether or not they would expect to find each at the campground they were given. The authors reported: "For a payment of $6 per night, respondents indicated they expected an average of 6.17 amenities. At $12 per night, they expected an average of 8.27 amenities. And at $18 a night, they expected an average of 10.59 amenities" (More, Dustin, & Knopf, 1996, p. 88).

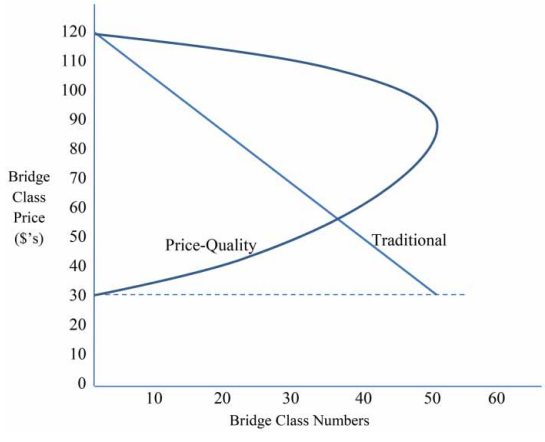

Fig. 2. A Traditional Economic Demand Curve and a Price–Quality Demand Curve

Figure 2 contrasts the classic backward sloping economic demand curve with the price–quality relationship curve. The principles are illustrated by using as a hypothetical example the number of registrations for a six-session bridge class targeted at a middle class clientele. The traditional curve shows that at a price of $120 ($20 per class) for the six classes there are no registrations, because the price is perceived to be too high. As the price falls, the number of registrations increases, so when it drops all the way to $30 ($5 per class) there are 53 people who register.

The price–quality curve is parabolic. Figure 2 shows no registrations for the class when it is priced at $30 ($5 per class) or lower, because prospects are suspicious it will be low quality and perhaps that "my kind of people will not be there". As the price is raised, the number of registrations increases, so when it reaches $90 ($15 per class) 53 registrations occur. Beyond that point, the number declines, because the

price is perceived to be too high by an increasing number of prospects. The figure shows that at a price of $40, 20 people register, indicating 33 prospects did not sign up because the price was too low. At a $110 price, there will also be 20 registrations, indicating there are 33 prospects who do not sign up because the price is too high.

To accommodate the different demand curves represented in Figure 2, two bridge classes could be offered using different names to appeal to the different market demand elasticities. "Serous Bridge" might be priced at $90. This would offer enhanced image and prestige, and maximize participation and revenue at the high end of the market. An alternate class, "Recreational Bridge", would be priced at $50 to capture demand from those at the middle and lower ends who are more price sensitive.

The signaling power of price is suggested by the meanings associated with the words "cheap" and "expensive". Again in 1945 it was noted:

> 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, p. 100)

This 70-year-old observation remains valid today. It suggests the word "cheap" should be replaced by synonyms such as affordable, inexpensive, value-for-money, moderate, modest, economical, or cost-effective.

The rejection of low-priced services is a form of risk avoidance, the risk being that inexpensive services may be less likely to give desired satisfaction. Given the investment in the opportunity cost of their time, the personal energy involved, sunk costs in equipment, and the travel costs incurred, many potential users may feel it unreasonable to risk using a low-priced service for the relatively small monetary savings that may accrue. Thus, if a leisure agency charges a low price that does not accurately reflect the quality of a program, then it is devaluing the program to potential users. Consider the following illustrations of the consequences of the price–quality relationship:

- A summer youth day camp program was offered and priced at $10 for the week. Too few signed up for the program to be implemented. The following year, the same agency offered the same program at $70 per week and it was fully subscribed. This suggests the targeted group took price to be an indicator of the quality of the day camp.
- If daily swim lessons for children in the summer months were offered in a community by four different entities whose prices for a week's lessons were: private club, $70; YMCA, $45; university, $40; and leisure agency, $30; many residents would elect the private club assuming that its lessons were the best because its price was highest.
- An annual banquet held to honor volunteers was provided free of charge. Attendance was disappointing. Many volunteers had assumed it would be a self-service, down-market, barbecue occasion, whereas in fact it was an up-market, waiter-serviced occasion. The following year, the city printed tickets with a price on them of $50, but gave them free to qualified volunteers. Attendance increased dramatically.

Numerous research studies investigating this relationship have been reported in the marketing field. Reviews of these have confirmed that there is general acceptance of the price–quality relationship, which is undergirded by the aphorism, "You get what you pay for." However, its effectiveness is qualified by the amount of an individual's experience with a service, the nature of a particular program, and the context in which it is

delivered (Cronley, Posavac, Meyer, Kardes, & Kellaris, 2005).

Not surprisingly, as experience with a service increases, the effectiveness of price as a cue for quality declines. It is likely to be especially prominent when the characteristics of a service are unobservable (Gardner, 1970). For example, a US Navy base charged officers a higher price than other ranks for the use of its rental cottages and golf course. The internal characteristics and quality of the rental cottages were identical, but they were unobservable. Complaints about the rental cottages came from the other ranks who assumed their lower price meant they were being allocated inferior cabins or receiving lower levels of service. There were no complaints about the different golf fees, because they could visibly observe they were receiving the same experience.

If no other extrinsic cues are available, then price is a relatively powerful communicator of quality. The presence of additional cues in a given context reduces the signaling influence of price. People's knowledge or impression of an agency's quality "norm" will be used to interpret the probable quality of a new service they are considering. If it has a reputation for delivering good quality and value; for integrity; and there is consistency in the perceived quality/price ratios across its offerings, these attributes will positively reinforce the strength of a price signal.

Other cues may include: experience with similar programs offered by other leisure agencies; a program's name; the instructor's reputation; and knowledge of the cost required to deliver the program. The signaling impact of price will only be interpreted with confidence if it is consonant with these other cues. Evidence suggests the agency's reputation is likely to be the strongest of these perception cues and that multiple cues have more effect than single cues (Dewar & Parker, 1994).

The price–quality relationship is especially salient in the public leisure services field because of its tradition of subsidizing programs, driven by a concern for serving the economically disadvantaged. The resulting low prices, for the most part, do not reflect low quality. Nevertheless, they inadvertently communicate that message to uninformed citizenry who have few other clues available to them for evaluating the agency's quality. This contributes to reinforcing any negativism there might be in the community toward the field. It suggests that whenever the economically disadvantaged are not the target audience, it would be helpful to enhancing an agency's overall image as a high-quality service provider if it charged higher prices which signaled that message.

CUSTOMARY PRICING

There are occasions when costs for a service increase by an unusual amount, when policy changes require a larger proportion of costs to be covered by revenues; or some other contingency arises that appears to make an increase beyond the latitude of price acceptance inevitable. An alternative strategy is to keep the price increase within this latitude zone, and to accomplish the financial goal by cutting a program's costs. This strategy preserves the existing price by disguising changes in the level of service, and so removes the need for adaptation to a new price. This has been termed "candy-bar pricing" (Blinder et al., 1998) in recognition of the candy companies' strategy of keeping the price of a chocolate bar at (say) 75 cents and the packaging at the same length to perpetuate the illusion of the status quo, while incrementally reducing the size of the bar. Similar examples abound in the private sector:

- In addition to candy bars, cigarettes, potato chips, and cookies may keep the same price and packaging, while the size or quantity of the product is reduced.

- Restaurants may reduce the size of meal portions (and the size of plates on which the meals are served to "hide" the reductions), while holding down the price.

In the leisure field, the term "customary pricing" has been adopted to describe this strategy, because this situation often arises when a price has been at the same level for so long that users have become accustomed to it and raising it will arouse protests (Howard & Crompton, 1980). It could also be termed, "backward costing", because it is based on the premise that the price is fixed so managers have to work backwards and reduce the cost of service delivery to ensure there is no net reduction in the program's bottom line.

Customary prices are difficult for a leisure manager to ignore. In a sense, the existence of customary or traditional prices simplifies the pricing task. Historical precedent or custom has determined these prices, and it is up to the agency to produce programs or services that may be offered economically at those prices. The emphasis has to be on cost control, which means reducing the quantity of the service offered. Consider the following examples:

- Retain the price of a senior citizen annual pass for the golf course, but limit its use to off-peak times or to a fixed number of rounds per year (say 50) after which the regular greens fee applies. The times and number of rounds may be incrementally curtailed each year with the increments being small enough to stay within the latitude of acceptance.
- Retain the price for a softball league, recreation class, etc., and incrementally reduce the number of games or classes the fee buys.

When the quantity of service offered reaches the lowest point which is acceptable to a client group, then the price can be raised and justified by a commensurate increase in the quantity offered. Applying this strategy to a recreation class may result in the pattern shown in Table 3. The price in this example remains at $50, but the number of classes each year is reduced. In year 5 the original number of classes is restored, but since this represents a 30% increase over the previous year, the price is increased by a similar percentage.

Table 3. An Illustration of Customary Pricing Applied to a Recreation Class

Year	Number of classes	Price ($)
1	10	50
2	9	50
3	8	50
4	7	50
5	10	70
6	9	70

The cost reduction associated with customary pricing should always be imposed on the quantity of service provided, not on its quality. There is an aphorism that states, "The pain of low quality is remembered long after the joy of low price is forgotten." Price changes have a relatively short-term impact on the psyche, while memories of poor quality are much more durable, which makes it unwise to reduce quality in order to "hold the line" on price. The long-term viability of an agency depends on the quality of its services. If this is compromised, then its reputation and image suffer and the confidence and support of both users and their elected representatives diminish.

CONCLUDING COMMENTS

Explanations and predictions of pricing behavior traditionally have relied upon the neoclassical economic concepts of supply, demand, and utility. The notion that demand will fall when price rises remains one of the most important and powerful theories in the social

sciences and an essential intellectual tool (Kahneman, 2012). However, it is predicated on the assumptions that buyers are fully informed of all the costs and benefits related to the decision, carefully evaluate them, and then act rationally, so they always seek to maximize their utility. Economists typically discount behaviors that violate the principles of rationality, viewing them as idiosyncratic, unstable, and atypical exceptions to the norm.

Over the past three decades, it has been recognized that this traditional approach is incomplete. Observation of reactions to pricing decisions consistently contradicts the assumption of rationality and suggests exceptions to it are the norm, rather than being atypical. Hence, the focus has shifted from how economists believe people *ought* to behave, to how they *actually* behave. The revised focus is now generally known as "behavioral pricing". The word behavioral emphasizes how real world people act, rather than prescribing how they ought to act.

It is now recognized that people often make decisions that are systematically and substantially different from those predicted by the standard economic model. Thus, in both the marketing and leisure literatures there has been a movement to supplement and enrich the neoclassical model, by incorporating a cognitive processing approach that considers the reactions and behavior of individuals to a given price or changes in price (McCarville, 1990). This approach recognizes the key to removing controversy from pricing decisions is to recognize that users' expectations govern what they believe to be an acceptable price.

Establishing a price for a leisure program is a four-stage process:

(1) Decide upon a cost-recovery ratio (level of subsidy) based upon the proportion of benefits accruing to users and to the wider nonuser community, respectively.
(2) If necessary, adjust this price so it is reasonably consistent with the "going-rate" charged by other suppliers in the area.
(3) Establish discounts, and the vehicles to deliver them, for the economically disadvantaged.
(4) Ensure both the initial price and subsequent revisions of it are compatible with users' latitudes of acceptance.

This paper has focused on the fourth stage. It reviews patterns of behavioral responses to price increases which are based on four heuristics (that is, cues, or "rules of thumb") users adopt in order to simplify the cognitive process of decision-making. Strategies emanating from these heuristics which are designed to ensure that price changes are perceived by participants to be compatible with their internal reference prices have been described and illustrated. These strategies recognize users' perceptions of price are malleable, so leisure managers can manipulate them or their context to minimize controversy and resistance often associated with price increases. They are strategic tools that move managers and elected officials away from the arbitrary and intuitive actions that have traditionally prevailed, and toward the famous dictum of a "perfect" price in the political arena that was suggested over 40 years ago:

> The "perfect" price is not one where the payer gets the benefit, 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 overriding importance to him or her is whether the public will resist paying for the service. (Meltsner, 1971, p. 271)

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