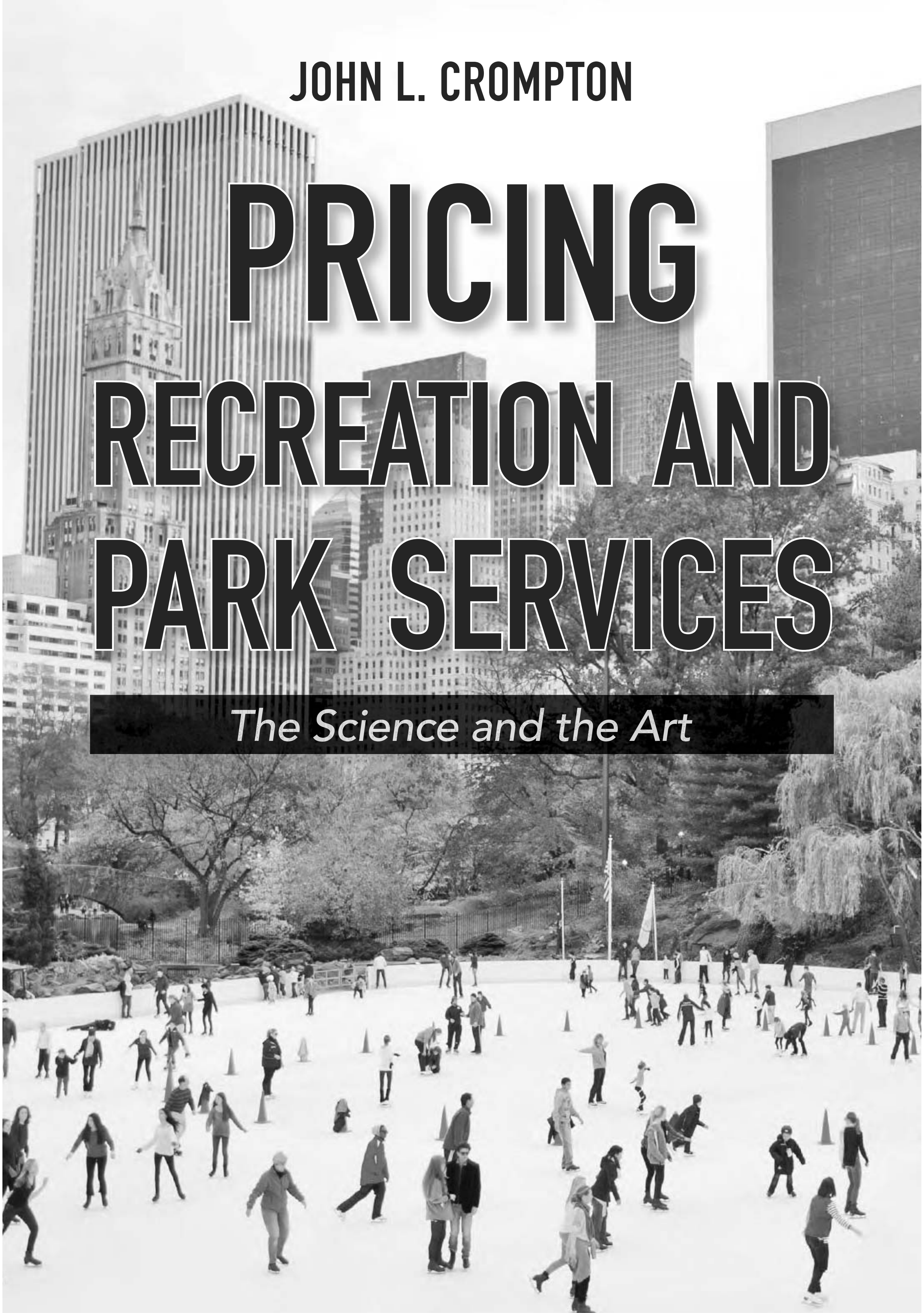
JOHN L. CROMPTON

PRICING RECREATION AND PARK SERVICES

The Science and the Art



PRICING RECREATION AND PARK SERVICES

The Science and the Art

John L. Crompton
Texas A&M University

SAGAMORE
PUBLISHING

Publishers: Joseph J. Bannon and Peter L. Bannon
Sales and Marketing Manager: Misti Gilles
Director of Development and Production: Susan M. Davis
Production Coordinator: Amy S. Dagit
Cover Designer: Marissa Willison

ISBN print edition: 978-1-57167-797-6
ISBN e-book: 978-1-57167-798-3
Library of Congress Control Number: 2016934062

Printed in the United States

SAGAMORE
PUBLISHING
1807 N. Federal Dr.
Urbana, IL 61801
www.sagamorepublishing.com

To the memory of a windy night
on top of The Beacon: Priceless

Contents

Section 3
Behavioral Pricing: Adapting Price to Fit Clienteles' Perceptions of What Is Acceptable

Preface

In the early 1980s, Ron McCarville and I initiated a substantial research program with the goal of providing a scientific foundation to guide pricing decisions confronting managers and elected officials in public parks and recreation agencies. The timing was fortuitous because it coincided with the tax revolt that erupted in the late 1970s and early 1980s. This transformed the political narrative in the U.S. (and coincidentally in Canada, U.K., Australia, New Zealand, and other countries during the same time). Prior to this shift, those seeking electoral office promised more and better public services in their platforms. After the tax revolt, the emphasis changed to reducing, or at least not increasing, taxes. This was perhaps most prominently and notoriously exemplified by President George H. W. Bush's 1987 pledge: "Read my lips. No new taxes" and his electoral defeat in 1992, which many attribute to his breaking that pledge.

While voters have widely supported this philosophy for the past 30 years, they have simultaneously continued to expect high quality public services. Raising additional revenues from user pricing has been prominent among the multiple strategies adopted at all levels of government to reconcile these ostensibly antithetical mandates.

The research program that McCarville and I undertook endured for about a decade. Since that time, in the past 20 years, other leisure researchers have reported findings, but the number of studies has been relatively small and a sustained research program has not been pursued. Meanwhile, pricing research in other fields has grown exponentially. Hence, the challenge in writing this book has been to review the extensive literatures in the fields of retailing, welfare economics, behavioral economics, psychology, political science and leisure; extract pertinent concepts, principles and research findings that seem likely to inform policy decisions in the different milieu of public leisure agencies; and adapt, modify and integrate them so they fit the context of these agencies.

The insights gleaned and adapted from these literatures have been honed and refined by two filters. First, numerous leisure professionals at the many workshops, presentations and consulting assignments that I have led in the past 20 years have provided frank and generous feedback. Many of the examples used in the book are not accompanied with citations, because they emerged from these professional verbal interactions and their source was not documented.

The second filter was my experience as an elected official. In my years as a councilman and mayor pro tem for the city of College Station (population of 100,000), on multiple occasions, my state-of-the-art knowledge of pricing had to be reconciled and adapted to the political realities of a particular situation. It is one thing to advocate scientifically best practices; it is a different matter to implement them in the political environment of an emotional, volatile, passionate, crowded council chamber. This experience confirmed the central importance of three principles that permeate this book: carefully framing issues so they result in a desired outcome, communicating in non-technical language free from the jargon of economists, and building constituency support before seeking a political decision.

While it would never be publicly stated in such crass terms, the overriding concern of many elected officials is how to "pluck the goose to obtain the most feathers with the least amount of hissing." They can identify the losers from price increases, and while they seek the additional revenue to retain service quality, they fear the wrath of those who are adversely affected.

The crux of controversies associated with pricing frequently revolves around how best to reconcile the two concepts of fairness that guide pricing decisions: The Benefit Principle states those benefiting from a service should bear financial responsibility for its cost, and the Ability to Pay Principle recognizes the public sector's obligation to ensure no residents are excluded from participating because they lack the funds to do so.

In the private sector, the sole criterion considered in pricing decisions is maximizing revenues. Usually, this entails exclusively focusing on responsive target markets. Pricing decisions in the public sector are more complex because the mission is different. Decision makers have to find the price that is "fairest" to all; that is, it best serves the interests of all residents, including non-users and the economically disadvantaged.

Section 1 of the book, comprising Chapters 2 to 4, is focused on issues related to the Benefit Principle. These issues invariably revolve around equity, income redistribution, efficiency and income generation. Resolution or avoidance of controversies requires that managers and elected officials understand these issues so they can rationally explain and justify their pricing decisions to constituents.

In Section 2, comprising Chapters 5 to 8, price elasticity is discussed. This is the economic concept that undergirds differential pricing, which creates the discounts and premiums used to reconcile the Benefit and Ability to Pay Principles. The justifications (or lack thereof) for these price differentials are discussed in detail. If discounts are not offered to the economically disadvantaged, one of two undesirable outcomes will occur: (i) Prices will be set at a level that is too high for them so those whose need is greatest are effectively excluded, which abrogates the Ability to Pay Principle, or (ii) to preclude such exclusion, prices are set at a low level for all, resulting in a large consumers' surplus among those who could pay more, which is an abrogation of the Benefit Principle. In accordance with the Benefit Principle, premiums are charged to capture consumers' surplus and to cover the costs associated with meeting the demands of some users for additional increments of benefits beyond the standard offering.

Chapters 9 to 12, which constitute Section 3 of the book, reflect the emergence of behavioral economics in the 1980s. Prior to that time, the guiding economic framework for pricing decisions comprised the neoclassical concepts of price, demand and utility. This was based on how people ought to behave if they were logical and rational. In contrast, behavioral economics recognizes that people's economic behavior is frequently not rational. It focuses attention on how people actually behave. Subsequently, a substantial body of research, comprising hundreds of studies, has demonstrated that pricing decisions are often systematically and substantially different from those predicted by the standard economic model. Recognizing the principles of cognitive processing and the heuristics likely to be prominent in users' evaluations of price changes will assist in adopting prices that will not arouse negative reactions.

Central ideas that emerged from the research program of three decades ago were widely incorporated into the pricing policies of leisure agencies. In many cases, this did not occur because of direct exposure to the material. Rather, it was a result of the informal sharing of procedures, ordinances and policy documents that is a corollary of professional life in the public sector. Irrespective of their communication route, it has been satisfying to see the positive practical outcomes from that effort. If this book has a similar impact, the endeavor of writing it will have been well worthwhile.