The Influence of Product and Service Quality on Coffee Shop Entrance Fees:

An Application of Hedonic Price Theory

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Abstract

The purpose of this research was to study factors affecting coffee shop entrance fees according to the characteristics of the coffee shop. This research applied hedonic pricing theory to determine entrance fees of coffee shops, which were location, product characteristics, and service. The secondary data was retrieved from Facebook and Google Maps business information of 134 coffee shops in tourist towns in Thailand. The data was analyzed by regression analysis. The research found that factors determining entrance fees were consistent and statistically significant with the theory, especially the mountain view, and the redemption of entrance fees for products. However, the social media factors, Facebook followers, and Google Maps ratings were not significant to entrance fees, which implies that there was a problem with the quality of followers and rating of coffee shops.

Keywords: Hedonic Pricing Theory, entrance fees, coffee shop

Introduction

Consumer behavior changes in recent years have induced coffee shop businesses to create appealing menus and ambiances that attract customers to plan their travel to stop by

and take photos for their accounts on social networking services. The growth of the food and beverage industry, especially in the coffee shop business, has led to increased competition, cost pressures, and new entrants. Coffee shop owners need to create unique selling points to attract customers and maintain competitiveness amidst these changes. Business owners must consider all factors influencing consumer decisions to meet the increasing demand and maintain market share (Fogarty, 2012; Raab et al., 2009).

The situation of the coffee shop industry is expected to continuedly growing, driven by the recovery from COVID-19 and government economic stimulus policies. The rapid expansion of the franchise of big brands of coffee shops, and small coffee shops can start a new business easier through social media platform marketing and delivery platform support. However, the industry still faces challenges from the incomplete recovery of purchasing power and rising costs. The variety of consumer choices requires coffee shop owners to be cautious in investment and cost management. Despite the growth trend, the recovery of the food and beverage business remains fragile, necessitating careful adaptation and management to maintain profitability (Parsa et al., 2010).

While facing fierce competition in the industry, coffee shops should consider the pricing strategy of food and beverages, and entrance fees of coffee shops, as important factors for attracting consumers and boosting business revenue. Appropriate pricing strategies are critical factors in running a restaurant or coffee shop, considering the quality of products, services, ambiance, and customer experience. Entrance fees must offer value and attract customers, while product prices should reflect quality and lead to profits. Inappropriate pricing is one of the reasons for coffee shop business failures. Therefore, coffee shop owners must carefully define customer segments and other factors. Effective pricing strategies must balance customer attraction and business profitability (Shoemaker et al., 2005; Parsa et al., 2005).

The hedonic price theory can be used to analyze the pricing of coffee shop entrance fees by considering characteristics of coffee shops such as location, product, and service quality. Additional factors are popularity in social networking services, number of reviews, influence on customers' perceived quality, and willingness to pay. Although this model is commonly used in the real estate and hotel industries, it can be applied to coffee shop businesses to analyze the shadow price. However, studies on coffee shop entrance fee pricing

based on this concept are limited, justifying further research to understand the factors influencing business success (Lancaster, 1966; Raab et al., 2009).

Research objectives

To study the factors influencing the determination and price level of entrance fees for coffee shops based on the shop's characteristics.

Literature review

Hedonic Price Theory

Hedonic Price Theory is an economic concept that explains the relationship between a product's price and its characteristics. The theory suggests that the price of a product is the sum of the values consumers assign to each of its attributes. It developed from Lancaster's (1966) study, which suggests that consumers decide to purchase goods based on the attributes that bring them satisfaction, rather than the product itself. The Hedonic Price Method applies this theory to set prices according to consumer satisfaction derived from various product attributes. It is particularly useful for analyzing markets with diverse and differentiated products, such as real estate, computers, and automobiles. The theory helps to identify the value of each attribute, offering a better understanding of consumer decision-making and pricing mechanisms in complex markets. It is valuable for analyzing consumer behavior, marketing strategy development, and product development to meet consumer needs effectively (Rosen, 1974).

Hedonic Price Theory is linked to the concept of Quality Heterogeneity by considering the variety in product quality within the same market, affecting pricing. This model employs consumer utility theory and regression analysis to determine the relationship between product attributes and price. Ladd and Suvannunt (1976) developed a model suitable for analyzing food products, assuming a fixed number of attributes for consumers, while producers can modify them. Regression equations are used to identify the relationship between attributes and price. The pricing of entrance fees to coffee shops can be categorized into two groups:

location-related attributes and product and service quality attributes, represented by the pricing equation exhibited in Rosen (1974) as follows:

$$P = f(X_i)$$

where P is the price and Xi are various characteristics of the goods or services.

Location-Related Attributes

Location-related attributes are important in evaluating the price of a product. In Hedonic Price Theory, pricing based on location attributes involves analyzing how various characteristics affect a product's price. The design and location of a shop impact customer satisfaction and can enhance the product's value. Rosen (1974) suggested that the value of goods is related to their characteristics or generally beneficial attributes. This approach is often applied in real estate economics, where different attributes of houses, such as the number of bedrooms or bathrooms, determine the actual value of the property. For instance, Anglin and Gençay (1996) noted that attributes like the number of bedrooms, bathrooms, and yard size increase house prices. This indicates that location attributes significantly impact pricing for coffee shop entrance fees. Analyzing these attributes using Hedonic Pricing Theory helps understand how each feature affects the price, enabling coffee shop operators to set prices appropriately to market conditions and customer expectations. Abrate, Capriello, & Fraquelli (2011) studied hotel room pricing and found that hotel characteristics such as the number of amenities, services, hotel size, star rating, brand association, and location significantly affect room rates.

Accessibility Characteristics

The study of coffee shop entrance fees using Hedonic Price Theory aligns with accessibility characteristics, analyzing how accessibility-related attributes affect a product's value and price. For example, in purchasing a residence, accessibility would include proximity to essential places, amenities, or distance from key locations like shopping malls, schools, or parks. Emphasizing good accessibility can increase property prices as consumers seek a convenient lifestyle with easy access to various facilities. Understanding and analyzing how accessibility affects the price of goods or services helps businesses and consumers

comprehend the value of each attribute, facilitating more rational buying and selling decisions (Andersson, 2010). In comparing coffee shop entrance fees, accessibility characteristics include the shop's location, distance from the community, distance from tourist attractions, type of shop, and atmosphere (e.g., mountain views). Hedonic Price Theory is frequently used in hotel research, where various attributes like location, amenities, and services significantly affect pricing. Espinet et al. (2003) found that hotel size, star rating, city location, distance from the beach, and parking availability are key factors in determining hotel pricing. This data shows that location and atmosphere significantly influence the pricing process for goods or services.

To gain a competitive advantage in the business, coffee shop owners or operators focus on the atmosphere of their establishments, as it is a crucial factor that significantly affects pricing. A unique and attractive atmosphere often creates a positive experience for customers, which can increase their satisfaction and willingness to pay higher prices for their coffee shop visit. Elements such as interior decoration, music, and scenic views, like those of the sea or mountains, are often investments aimed at enhancing the customer experience. These factors can enable coffee shops to set higher prices and influence customers' decisions to choose their establishment. However, pricing must also consider the cost of providing services, including expenses for maintaining the shop's atmosphere. It is essential to ensure that the set prices align with the overall satisfaction and expectations of the customers. Creating a valuable and engaging atmosphere is a strategic approach that allows coffee shops to price their offerings appropriately for the market and target customers (Loureiro et al., 2013).

Product and Service Quality Attributes

The Hedonic Price Theory suggests that product pricing is based on various product and service attributes. Analyzing the impact of each attribute on pricing helps producers or sellers set prices that accurately reflect the product's value in the market. Improving the quality of products and services based on these attributes can increase value, directly affecting pricing. Prices are set according to the value consumers are willing to pay for the features and benefits associated with the product or service. Higher quality goods or services can charge higher prices, as they reflect better attributes, directly impacting the product's cost and market price (Zeithaml et al., 2006). In the restaurant industry, menu design and pricing are critical to

business performance, and prior research has shown that effective menu design can significantly increase profits (Annaraud, 2007; Yang & Chang, 2011).

The quality of goods and services greatly affects pricing since consumers are generally more satisfied and willing to pay higher prices for high-quality products or valuable services. Therefore, high-quality goods or services are likely to be priced higher than lower-quality ones in the market due to increased consumer demand and satisfaction. Moreover, quality affects the shop's costs; maintaining high product or service quality incurs higher expenses, potentially leading to higher prices. Menu analysis is a vital tool for restaurant owners to determine pricing, as effective pricing strategies can lead to consumer satisfaction and financial success (Atkinson & Jones, 1994). For coffee shops charging entry fees, product and service quality attributes, such as the ability to redeem entry fees for goods, the number of Facebook followers, the number of Google Maps reviews, and the review scores on Google Maps, are considered. Premium coffee shops with high entry fees typically have distinctive identities and offer special or luxurious experiences. Shops with additional features, like live music or performances, may also charge higher entry fees. Shops that use pricing to create a premium image may set higher entry fees than regular coffee shops. Therefore, shops with high product and service quality and a focus on exclusivity and luxury can set higher entry fees to reflect the value and experience offered, in line with Hedonic Price Theory (Ryu & Han, 2010).

Reputation and Success Factors

Reputation is another critical factor for the success of restaurants or coffee shops, as these businesses are experience-based, and customers cannot fully evaluate them before consumption. Consumers may feel uncertain when choosing a service, so they often seek others' opinions before purchasing goods or services. In the restaurant and coffee shop industry, the impact of word-of-mouth has been extensively studied and recognized as a crucial source of information for consumer decision-making (Luca, 2016; Fogarty, 2012). Zhang et al. (2010) studied different types of online reviews, showing a significant positive relationship between consumer-generated ratings about food quality and service and online popularity, such as website visits. Luca (2016) analyzed the impact of consumer reviews on social media, finding a positive correlation between star ratings and restaurant revenue. Restaurants with higher review volumes tend to engage online reviewers more actively than

those with fewer reviews. Therefore, consumer reviews can be used to verify a restaurant's reputation. Yim et al. (2014) applied the Hedonic Pricing model to analyze key attributes influencing food prices in restaurants. The research found that food quality and presentation significantly positively impact food prices. At the same time, factors like the number of blogger reviews (e-WOM), location on the first floor of a building, Italian cuisine, and franchise status negatively affect food prices. Fogarty (2012) concluded that restaurant reputation rankings and expert opinions correlate with Hedonic pricing.

Research Methodology

This study examines the relationship between various attributes and the pricing analysis of coffee shop entry fees. It discusses relevant theories and summarizes previous research to provide a foundation for this study. The research is presented in the following order; data collection and data analysis.

Data Collection

Data was collected from a total of 134 coffee shops, categorized into two types: 50 coffee shops that charge entry fees and 84 general coffee shops that do not charge entry fees. The data was gathered from Facebook and business information on Google Maps. The researcher collected this data to examine and compare the entry fees of coffee shops. The variables used in the data collection were derived from a review of the relevant literature, focusing on two components:

1. Location-related attributes as independent variables influencing the entry fee pricing in this research. Since location directly affects costs, customer access, and the shop's image, it is also related to competition, target customer groups, and pricing strategies. Studying these relationships helps to understand pricing mechanisms in the coffee shop business comprehensively.

2. Product and service quality attributes are independent variables that influence entry fee pricing in the research. These factors reflect the value, popularity, and customer perception of the coffee shop, which affect pricing.

The study identifies five independent variables related to attributes that influence coffee shop entry fees based on product characteristics, detailed as follows:

Location-Related Attribute (1 Variable):

　　1. Mountain View: Coffee shops with a mountain view are coded as 1, while those without are coded as 0.

Product and Service Quality Attributes (4 Variables):

　　1. Type of Shop Charging Entry Fees: Coffee shops that allow the entry fee to be fully redeemed for products are coded as 1, while those that do not allow redemption are coded as 0.

　　2. Number of Facebook Followers: The number of followers of the coffee shop's Facebook page.

　　3. Number of Google Maps Reviews: The total number of reviews on Google Maps for the coffee shop.

　　4. Google Maps Review Score: The average review score of the coffee shop on Google Maps.

Table 1 A summary of the variables for the sample group.

variable	Mean	SD	Min	Max
Shop with mountain view (N= 26)				
Coffee shop entrance fee	82.31	56.94	20	300
No. of followers on Facebook	42,896.15	40,853.30	33,000	150 000
No. of reviews on Google Maps	740.08	919.48	20	3,932
Google Maps Review Score	4.38	0.23	4	4.9

Table 1 (continued)

variable	Mean	SD	Min	Max
Shop with no mountain view (N= 108)				
Coffee shop entrance fee	18.33	40.45	0	250
No. of followers on Facebook	33,484.17	49,207.48	690	370,000
No. of reviews on Google Maps	770.56	1,331.45	18	12,324
Google Maps Review Score	4.36	0.24	3.6	4.9

Data analysis

This research utilizes the Hedonic Price Method to analyze the relationship between various factors or attributes and coffee shop entry fees. The study uses Regression Analysis to calculate equations and examine the direction and relationship of different independent variables affecting the pricing of coffee shop entry fees, based on the hypotheses. The independent variables are categorized into two main groups, and the collected data is analyzed using statistical software as follows:

$$P_i = f\left(X_{ij}, Control_{ik}\right) \tag{1}$$

$$P_i = \alpha + \beta_j \sum_{i=1}^{n} \sum_{j=1}^{m} X_{ij} + \beta_k \sum_{i=1}^{n} \sum_{k=1}^{p} Control_{ik} + \varepsilon \tag{2}$$

where

P_i is Dependent variable: Price of entrance fee to store i. The nth shop in this study has a total of 134 shops that charge an entrance fee and do not charge an entrance fee.

α is the hidden price of the entrance fee to the store

β_j Shadow price of characteristic j

X_{ij} is the independent variable is the jth characteristic of the ith store.

Where j=1 is a coffee shop with a mountain view.

j=2 is the type of coffee shop where an entrance fee can be exchanged for goods and services

j=3 Number of followers on Facebook

j=4 Number of Google Maps reviews x Google Maps review score

$Control_{ik}$ is the control variable of store i together with

where k=1 accepting credit card payments

k=2 large store type

k=3 Types of services provided by the store

k=4 provinces where coffee shops are located

Table 2 Hedonic Pricing Analysis of Factors Determining Coffee Shop Entrance Fees

Variable	Price	% of store entrance fees
Constant (entrance fee)	173.07***	100.00
Mountain View (0 = No, 1 = Yes) coffee shop with a mountain view.	25.34*	14.64
Exchangable Fee (0 = No, 1 = Yes) coffee shop where entrance fee can be exchanged for goods and services	30.11***	17.40
No. of followers on Facebook	33.18	19.17
No. of Google Maps reviews x Google Maps review score	1.54	0.89
Accepting credit card payments	YES	
Large store type	YES	
Types of services provided by the store	YES	
Province where the coffee shop is located	YES	
Total Observations	134	
Chi-squares Test	9.79***	
R-Squared	0.6938	

Statistical significance level of *0.1, **0.05, and ***0.01

Results and discussion

The regression analysis of coffee shop entry fee pricing, based on coefficients, provides the following findings: The Chi-squared Test statistic is 9.79, and the Coefficient of Determination (R-squared) indicates the percentage of variance in the dependent variable explained by the estimated model. The results show that all factors together explain 69.38% of the variation in the combined pricing of coffee and entry fees.

The analysis reveals that the factor of having a mountain view significantly impacts the determination of coffee shop entry fees at a significance level of 0.1. Compared to a base entry fee of 173.07 THB, the presence of a mountain view can increase entry fees by 25.34 THB. A scenic mountain view is considered an added attribute that enhances consumer value and experience, consistent with the Hedonic Price Method, which considers such attributes as crucial determinants of price. A beautiful mountain view enhances the ambiance and provides a better experience for consumers, making the visit more valuable. As a result, consumers are willing to pay higher prices for the experience of enjoying a scenic view. The finding that the mountain view factor is statistically significant in pricing decisions indicates that this attribute is important to consumers and influences their willingness to pay higher fees for better experiences. Therefore, unique attributes, such as a scenic view, are essential for operators to consider, as they can create added value and justify higher service pricing. This aligns with the research by Yim et al. (2014), which stated that restaurant decor, aesthetics, and convenience significantly affect food pricing. Similarly, De Silva et al. (2013) found that amenities, location, and establishment features correlate with higher pricing. Fogarty (2012) concluded that location is vital to a restaurant's success, where visually appealing locations serve as selling points that attract customers. Maintaining a natural atmosphere in a shop involves high costs, such as maintaining open spaces, sourcing natural materials, or environmental maintenance. These factors need higher pricing to recover costs and generate profit, including adjusting food prices accordingly. This is consistent with Espinet et al. (2003), who found that hotel location, accessibility, size, decor, star rating, city proximity to the beach, parking facilities, and amenities significantly affect hotel pricing processes. The study's findings align with research on factors influencing pricing in the food and beverage industry, where location and surrounding ambiance are critical factors for customers (Ryu & Han, 2010; Ryu et al., 2012). Coffee shops

with distinct locations and ambiance, such as scenic views, can create positive customer experiences, leading to a willingness to pay higher prices. However, pricing in the food and beverage industry must also consider other factors, such as raw material costs, labor, rent, and local competition. Therefore, operators must carefully evaluate various factors to set appropriate and competitive prices.

The factor related to coffee shops that charge entry fees redeemable for products significantly affects entry fee pricing at a 0.01 significance level. Compared to a base entry fee of 173.07 THB, this attribute allows for an increase of 30.11 THB. This finding suggests that this attribute is essential to consumers and influences their decision to pay higher entry fees. Allowing consumers to redeem entry fees for products provides additional utility, which follows the Hedonic Price Method principle of considering various attributes and utilities as critical pricing factors. When a coffee shop offers extra benefits, such as redeemable entry fees for products like food and beverages, consumers perceive added value and are willing to pay more. Consequently, coffee shops can set higher entry fees due to the increase in perceived value. Therefore, operators can set higher prices if the product features are superior to competitors or align with customer needs (Marn et al., 2004; Hinterhuber, 2008). In the case of coffee shops that allow entry fees to be redeemed for products, this is a unique attribute that adds value to the service, as customers receive both the experience of visiting the shop and the product. This differs from typical coffee shops, allowing these shops to set higher entry fees based on perceived customer value. However, pricing according to this theory must consider perceived customer value; if customers do not see the value in unique features, they may not accept higher prices. Therefore, operators must communicate and build appropriate value perception for customers (Nagle & Hogan, 2006). This is consistent with Zeithaml et al. (2006), who stated that pricing is cautiously determined to represent product and service quality for consumers, and with Annaraud (2007) and Yang and Chang (2011), who emphasized that menu design and pricing are critical to restaurant performance, with effective menu design maximizing profitability. Yim et al. (2014) studied restaurant pricing factors and found that ratings, food presentation, and menu variety positively affect pricing. Fogarty (2012) noted that the type of food sold affects pricing differently. This analysis demonstrates that menu pricing

or service entry fees are essential tools for restaurants and coffee shops, as effective pricing strategies can lead to consumer satisfaction and financial success.

The factor of the number of Facebook followers did not show statistical significance when compared to a base entry fee of 173.07 THB. Similarly, the number of Google Maps reviews and review scores showed no statistical significance. This study suggests that the number of followers and reviews may not be significant due to insufficient data. The impact of review scores on pricing may depend on various factors, such as the reliability of reviews, the number of reviewers, and the purpose of the reviews. Fake reviews significantly affect coffee shop pricing by creating inaccurate perceptions about the products or services, leading to customer distrust and reduced credibility of the coffee shop. Social media has enabled the monetization of positive reviews, which can account for up to 17.40% of entry fees, though this is not statistically significant.

Social media metrics can be monetized if a shop can generate significant engagement. Increased reviews can translate into revenue, but this cannot be statistically confirmed due to a modest 17.40% influence. This finding suggests that followers on Facebook or reviews might be manipulated, making it difficult to distinguish genuine from fake popularity, thus lacking statistical significance. Nonetheless, this study found a 17.40% influence on coffee shop entry fees if reviews are considered. Although reviews do not significantly affect entry fee pricing, the overall consideration of reviews may impact long-term pricing strategies. Businesses should pay attention to reviews and use them appropriately in pricing decisions. Chossat and Gergaud (2003) mentioned that customer reviews on service, food, and decor are related to food pricing, explaining how restaurant ratings on social media are based on consumer data and dining experiences. In the service industry, word-of-mouth impacts are recognized as a vital source of consumer decision-making. Consumers can easily find reviews of restaurants, menus, and locations. Additionally, blogger reviews on social media platforms such as Facebook, Wongnai, and Google Maps have become sources of restaurant reviews, which are factors in pricing goods and services (Fogarty, 2012; Jeong & Jang, 2011; Litvin et al., 2008).

Previous studies have shown that service quality is a critical factor in food pricing, with good reviews leading to better pricing decisions, aligning with Luca (2016), who noted that consumer reviews on social media affect food and entry fee pricing and that star ratings on social media have a positive correlation with restaurant revenue. Fogarty (2012) also found that online critic ratings and customer opinions influence food and entry fee pricing but should be based on genuine reviews.

The control variables include factors such as credit card payment options, large shop types, types of services offered (e.g., shops selling beverages only, beverages and bakery, or beverages, bakery, and food), and the province location of the coffee shops. The provinces include Chonburi, Nakhon Ratchasima, Phetchabun, Chiang Mai, Prachuap Khiri Khan, Bangkok, Kanchanaburi, Chiang Rai, Nong Khai, Nakhon Pathom, Nonthaburi, Pathum Thani, Lamphun, Lopburi, Prachinburi, and Ayutthaya. These control factors ensure that the study results are accurate and realistic in determining coffee shop entry fee pricing.

Recommendations for Application of the Research

Recommendations for Consumers

The research findings on the factors affecting coffee shop entry pricing, including location attributes and product and service quality, align with previous studies. Consumers can use these understandings to plan their visits to coffee shops. For those seeking a unique and special experience beyond typical coffee shops, selecting venues with scenic views, such as mountain vistas, is recommended. These establishments can charge higher entry fees due to the added value of the ambiance. Consumers should also consider shops that offer special benefits, such as redeemable entry fees for products, which provide additional value beyond the in-shop experience, making the higher entry fee worthwhile. For a standout and novel experience, selecting a coffee shop that offers both mountain views and redeemable entry fees will provide a dual benefit of scenic enjoyment and special privileges. Such establishments often charge the highest entry fees. In summary, consumers should consider the unique attributes and special benefits of each shop to determine whether the higher entry fee offers good value, ensuring a good experience.

Recommendations for Coffee Shop Operators

Coffee shop operators can use these factors, including location attributes and product and service quality, to target appropriate consumer segments. The study also finds that the ambiance and scenic views can significantly add value to the business. Operators can use this research to set entry fees based on the costs of goods or services appropriately. Analyzing the impacts of this study highlights the relationship between business strategies, the coffee market, and economic outcomes. The insights provided can help coffee shop operators understand the importance of research and its practical applications. Operators should focus on enhancing the shop's scenic views, particularly mountain views, which are significant factors allowing for higher entry fees, as customers are willing to pay more for beautiful scenery. Additionally, offering special benefits, such as redeemable entry fees for products, adds perceived value, allowing for higher pricing. If a shop offers both mountain views and redeemable entry fees, it can set the highest entry fees by combining these two attractive factors, with customers willing to pay a premium for the experience and benefits received. It is also crucial for operators to study and analyze competitors in the nearby area to set competitive entry fees based on the shop's attributes and incentives. Effective communication of the shop's unique qualities and benefits to customers can help demonstrate the value and justify higher entry fees.

Recommendations for Future Research

This study focuses on determining coffee shop entry fees based on specific shop attributes and factors influencing pricing. Given the highly competitive nature of the food and beverage industry, with multiple factors contributing to business success, future research should consider both coffee pricing and entry fee determination. Future studies could explore consumer demand concerning willingness to pay for coffee and entry fees to survey and analyze consumer behavior and preferences related to coffee pricing. Additionally, examining the supply side of coffee shop businesses could help businesses understand consumer needs and respond appropriately. This approach would also facilitate systematic and efficient service improvements to better align with market demands.

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