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Buying behaviors when similar products are available under Pay-What-You-Want and posted price conditions: Field-experimental evidence

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Abstract

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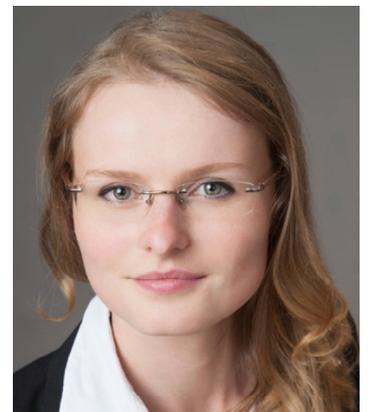
This work analyzes relationships between product- and pricing-related attitudes of customers and their choice or rejection of a product offered under the Pay-What-You-Want (PWYW) pricing mechanism in a situation in which the same supplier simultaneously sells a similar item at a posted price. In two between-person field experiments, we sell two types of freshly prepared sweet treats. In the first experiment, we supply waffles under PWYW and crêpes at a posted price. In the second experiment, we reverse the allocation of the pricing methods to the two focal treats. Our sweet snacks stand attracts 125 different customers in the first and additional 163 buyers in the second experimental condition. Overall, we find that the customer share opting in favor of a product among all buyers acquired in an experiment is not significantly influenced by the pricing mechanism used in selling the item. The probability that customers choose the PWYW offer increases as they like the underlying product more than the posted price substitute. Several price-related buyer attitudes are also significantly related to customer choice of a PWYW offer. The more customers are concerned about their social image in the context of their payment method choice and behaviors, the more they appreci-

ate to actively participate in price setting and the less difficulty they experience in figuring out a reasonable product price the more probable it is that they opt for a PWYW offer. The results imply that practitioners should carefully reflect consumer attitudes evoked by the PWYW mechanism in case of considering its introduction and in designing its details. In addition, the findings suggest that we need more research on the influence of various product- and price-related cognitions of consumers on their acceptance or rejection of PWYW offers. This holds in particular for goods with higher price levels than the product categories covered in our experiments.



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1. Introduction

Pay-what-you-want (PWYW) sellers supply goods to consumers who are not directly competing with each other to obtain the specific product or service from a focal provider and who are given the power to set any price for the offer which they believe to be adequate. The sellers commit themselves to complete PWYW transactions even if the buyers pay amounts which do not cover the providers' costs or nothing and thusly get offerings for free (Kim, Natter, & Spann, 2009). PWYW pricing implies a remarkable delegation of power from sellers to consumers (Park, Nam, & Lee, 2016). The method "is a means of endogenous price discrimination because different consumers pay different prices for the same product even though no exogenous constraints are imposed on them" (Schmidt, Spann, & Zeithammer, 2015, p. 1218; see also Krämer, Schmidt, Spann, & Stich, 2015). Such an individualized pricing strategy may attract more buyers than conventional posted prices that are unilaterally set by suppliers. However, PWYW offers also involve the risk for sellers that voluntary payments of selfish shoppers are so low that sellers earn lower profits compared to sales at conventional posted prices or that they even lose money. In addition, a considerable share of potential customers could reject to buy under PWYW conditions because this price setting approach imposes a substantial cognitive burden on them, namely to figure out payment amounts on their own, which they believe to be "right" and do not negatively affect their self-image (Gneezy, Gneezy, Nelson, & Brown, 2010; Gneezy, Gneezy, Riener, & Nelson, 2012; Kunter & Braun, 2013; Mendoza-Abarca & Mellema, 2016; Park et al., 2016).

In spite of such possible disadvantages of the PWYW method, organizations in quite a range of different industries (for

example, catering, music, book publishing, cultural entertainment) have been intrigued by the opportunities of this pricing strategy and have therefore started to experiment with the sales of various goods under PWYW conditions (Gahler, 2016; Kim et al., 2009; Mak, Zwick, Rao, & Pattaratanakun, 2015; Schons, Rese, Wieseke, Rasmussen, Weber, & Strotmann, 2014). At the same time, the PWYW method has attracted considerable attention among management and marketing scholars. Several reviews of the literature reveal that meanwhile far more than 50 empirical academic investigations of the PWYW approach have been published (Greiff & Egbert, 2016; Krzyzanowska & Tkaczyk, 2016; Natter & Kaufmann, 2015; Pöyry, 2015; Stegemann, 2014).

Most earlier empirical PWYW studies describe the distribution of voluntary payments among buyers. Furthermore, prior work explores correlations between socio-demographic (e.g., age, gender) and attitudinal (e.g., concern for fairness, price consciousness) characteristics of buyers as well as features of the design of the payment procedure (e.g., presentation of a descriptive or normative reference price, preservation of the anonymity of buyers) on the one hand and the amounts consumers give in PWYW settings. Investigations of hypothetical or actual PWYW purchases are typically designed in such a way that potential buyers are confronted with a PWYW offering and then decide about the amount they wish to pay for the good supplied. Unfortunately, this predominant research design ignores that in real-life purchase situations consumers are not forced to accept a PWYW offering. Rather they frequently have at least the possibility to buy the focal category of goods at posted prices. Thus, PWYW purchase processes comprise two empirically interconnected, but conceptually

distinct phases: First, consumers decide whether to buy a certain type of goods they are interested in under PWYW or posted price conditions. In the second phase, consumers who principally opted for a PWYW purchase set the amount they pay to the seller. The overwhelming majority of prior empirical PWYW work has analyzed the second phase. In contrast to this, the focus of the present study is on the decision to prefer a PWYW over a posted price offering, i.e., on the first stage of purchase processes.

Only very few researchers have noted that the outcome of the basic choice between a PWYW offering and a buy at a posted price may be significantly influenced by consumer "cognitions that PWYW situations evoke" (Stegemann, 2014, pp. 29-30). Hence, the present work contributes to the literature by analyzing how consumer liking of the focal products and perceptions related to the role of prices in purchase decisions as well as to some up- and downsides of the PWYW method as such are associated with the behavioral acceptance or rejection of a PWYW offer. More specifically, the purpose of the present study is to test the extent to which specific product- and pricing-related consumer attitudes contribute towards explaining whether consumers choose a PWYW or a posted price buy when they face a situation with a product offering under PWYW conditions and a close posted price substitute is available at the same time. As we base our tests on actual consumer buying and payment *behaviors*, we circumvent the "hypothetical bias" that threatens the validity of numerous earlier paper and pencil consumer surveys on purchase and payment *intentions* in fictitious PWYW scenarios.

The organization of the remainder of this paper is as follows. In section 2, we ex-

plain in more detail the fundamental options consumers have in typical real-life PWYW settings and derive predictions on how specific consumer attitudes should be associated with the probability that they accept a PWYW offering or that they reject it and instead purchase a similar product sold at a posted price. Section 3 outlines our field-experimental procedures and the measurement of the study variables. Section 4 describes the buying and price type selection behaviors observed in our field experiment and the test results concerning our predictions. In section 5, we conclude with implications of the empirical results for PWYW applications in practice and for future research.