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**Correlates of payment amounts among self-selected Pay-What-You-Want-buyers:
Findings from a field experiment in Germany**

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Abstract

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Correlates of payment amounts among self-selected Pay-What-You-Want-buyers: Findings from a field experiment in Germany

This work analyzes actual payments of consumers who consciously choose a Pay-What-You-Want- (PWYW) offer in a situation in which a posted price substitute was also available. Additionally, it tests whether associations between the level of voluntary payment and various product-, buying situation- and price-related variables covered in earlier PWYW studies of buyers who did not self-select themselves into a PWYW offering still hold in a sample of consumers who opted in favor of a PWYW product in spite of the presence of a posted price alternative. In two between-person field experiments, we sell two types of freshly prepared sweet treats. In the first experiment, we offer waffles under PWYW and in parallel 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 a total of 288 different customers of whom 158 deliberately buy an item offered under PWYW. We find that, on average, PWYW buyers pay about 15% more than the regular price posted for the similar sales alternative. 56% of the PWYW customers pay exactly the price posted for the close substitute sold in addition to the PWYW item. PWYW prices rise, as buyers are more concerned about fairly treating the

seller and are less price-conscious. PWYW amounts decrease, as buyers view the PWYW method primarily as an opportunity to make a bargain and know the seller in person. We discuss implications of the results for practical PWYW applications in organizations and for future research.



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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; 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 publish-

ing, 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; Raju & Zhang, 2010; 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).

Many 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. From a broader perspective, the existing PWYW literature suffers from two main limitations.

Firstly, a substantial share of studies does not analyze *actual* purchases. Rather, most frequently they use questionnaires in which they invite consumers to imagine a fictitious buying situation and then ask them to state the amount they would voluntarily pay. In other words, they capture behavioral *intentions* but not *actual behaviors* and real money transfers. A tabular summary of most prior PWYW

survey research is provided by Greiff & Egbert (2016). Unfortunately, there is ample evidence which shows that payment intention measures are not at all accurate reflections of actually paid amounts for a product sold under PWYW and typically overestimate real payments of customers in non-hypothetical PWYW purchases (Jung, Perfecto, & Nelson, 2016; Kim et al., 2014; Kunter & Braun, 2013; Maret, Pearson, & Moore, 2012). Hence, the validity of this stream of research is considerably hampered by a "hypothetical bias" (Greiff & Egbert, 2016, p. 6; Kunter, 2015, p. 2349). Moreover, the conclusiveness of survey studies using payment intentions as their criterion is lowered because estimates of associations between various "independent predictors" (e.g., fairness attitude) and claimed amounts of voluntary payments are likely to be strongly inflated by deriving all measures from a single data source, i.e., by "common method biases" (Podsakoff, MacKenzie, Lee, Podsakoff, 2009). Besides purely questionnaire-based investigations, a much smaller number of empirical PWYW studies with experimental laboratory designs exist (Mak et al., 2015; Krämer et al., 2015; Schmidt et al., 2015). Such experimental work has advantages in terms of its strong internal validity. At the same time, it faces the problem that artificially created purchase processes deviate clearly from real life buying situations (e.g., with regard to buyer interactions, repeated purchases or frictionless availability of offers from other firms competing with posted price schemes against PWYW sellers). Therefore, it is questionable that the results of such laboratory experiments can be transferred in large parts to purchases of consumers in real life settings.

Secondly, analyses of hypothetical or actual PWYW purchases are typically

designed in such a way that potential buyers are unexpectedly confronted with a PWYW offer and then only decide about the amount they wish to pay for the good supplied. Hence, consumers do not actually self-select themselves into a PWYW transaction because researchers do not give them the leeway to choose a similar item offered at a posted price (by the same supplier) at the same time and at the same point of sale. Sometimes study subjects are not even provided with the “zero-option” of rejecting a PWYW buy. Stated differently, they are more or less compelled to set a price under PWYW. As a consequence, it may well be that almost all prior PWYW field studies do not adequately mirror real life choice situations of consumers. To the best of our knowledge, the only exceptions are the two field studies of Gautier & Van der Klaauw (2012) and Léon, Noguera, & Tera-Sánchez (2012). Here, consumers actively applied for participation in PWYW sales campaigns, which emphasized the huge saving potentials of the offers and thereby appealed to materialistic motives of buy-

ers. Thus, the prevailing approach of prior field studies “forcing” consumers into a PWYW transaction could generate biased customer samples. In such samples the variances of typically studied attitudinal variables and their resulting correlations with the voluntary level of payment could be larger than they would be in selling situations which closer match actual consumer buying processes with multiple (competing) purchase options. Therefore, notwithstanding the large number of prior studies on payment levels under PWYW, there is still a need for further field research. However, this research should focus on actual amounts paid voluntarily by consumers who deliberately self-selected themselves into a PWYW offering that did not aggressively appeal to consumers’ egoistic motives to maximize their financial savings.

Against this background this study has two objectives. Firstly, it aims at analyzing actual PWYW behaviors of consumers who consciously chose a PWYW offer in a situation in which a posted price

substitute was also available. Secondly, it strives to test whether associations between the level of voluntary payment and various product-, buying situation- and price-related variables covered in earlier PWYW studies of buyers who did not self-select themselves into a PWYW offering still hold in a sample of consumers who opted in favor of a PWYW product in spite of the presence of a posted price alternative.

The remainder of this article is structured as follows. Section 2 derives the hypotheses underlying our research. Section 3 describes our field-experimental approach and the measurement of the study variables. Section 4 reports the voluntary payment behaviors observed in the field experiment and the test results concerning our predictions. Section 5 discusses implications of our findings for the practical use of PWYW pricing schemes in organizational settings and for future scholarly work.