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Article

Applicability of Pay-What-You-Want to High-Value Goods – A Case Study

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Marketing Review St. Gallen



5 | 2019 **SCHWERPUNKT** Das Geschäft mit der Transparenz • Dynamic Pricing – Influence on Consumers • Dynamisches Pricing in der Kundenwahrnehmung • Akzeptanz von Dynamischen Preisen – Fallstudie • Umsetzung von Dynamic Pricing • Applicability of Pay-What-You-Want Strategies **GASTBEITRAG** Die Philosophie des Preises **KOMMENTAR** Marketing Intelligence – oder gibt es noch etwas anderes? **SPEKTRUM** Trends in der Customer-Journey • Lead-Generierung • Conversational Agents aus der Kundenperspektive

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Rethinking Pricing



Applicability of Pay-What-You-Want to High-Value Goods – A Case Study

This case study investigates the feasibility of Pay-What-You-Want pricing for goods of high monetary value. The author assumed that allocating a portion of the offered price to charity would mitigate customers' incentive to bargain. Yet, results show that customers pay prices too low to compensate for either the seller's input or a charitable cause.

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Recent technological advances and mass adoption of mobile (internet) devices have increased price transparency as well as price sensibility among customers (Quint, Rogers & Ferguson, 2013; Nielsen, 2017; Jongen, 2018). More than ever, customers are aware of their informed and, consequently, empowered position. They thus increasingly demand participation in activities which have originally been reserved for companies (Yim, Chan & Lam, 2012; Barkworth, 2014; Schwabel, 2015). Customer participation in pricing, however, might hold great risks for companies as customers do not have sufficient competence or knowledge to determine economic prices (Schons et al., 2014). By means of a case study, I investigated the use of a customer-driven pricing approach, and in particular possible restrictions regarding its applicability to high-value goods.

Customer Participation in Pricing

In line with the assumption of the “homo oeconomicus”, customers may be assumed to pursue their own economic advantage in any transaction. Hence, customers are likely to take advantage of price promotions, to bargain for lower prices, and even to postpone purchases until an item is on sale (Oliver Wyman, 2018). The increasing economic importance of large-scale price promotions, such as Singles’ Day and Black Friday, or *Priceline*’s “Name Your Own Price” scheme, reflects these behaviors (Kolf, 2018).

Allowing customer participation in the price determination, however, might result in low prices or even (unintentionally) in prices that do not cover the costs (León, Noguera & Tena-Sánchez, 2012; Marett, Pearson & Moore, 2012). A rather unconventional and less commonly used participative pricing mechanism is Pay-What-You-Want (PWYW) pricing. It is the most extreme form of participative pricing mechanisms as the traditional roles of customers and companies are reversed: customers set the prices, and companies are obliged to accept these. As the term implies, customers may even set prices of zero (Kim, Natter & Spann, 2009).

Contrary to expectations, research on PWYW demonstrates that while the prices customers pay often do not equal the regular fixed price, they mostly do pay more than zero (Gerpott, 2017). Equity theory and, linked to it, social exchange theory, provide a potential explanation for this counter-intuitive payment behavior by suggesting that individuals try to maintain a balance between what they receive and what they give in a transaction (Adams, 1965). Furthermore, individuals do not only strive for economic benefits for themselves, i.e. for rational utility maximization; they

also aim for social benefits by trying to achieve a fair transaction for all involved transaction partners (Blau, 1964). Hence, buyers pay prices higher than zero for reasons of reciprocity and fairness, or in order to avoid social sanctions (Schons et al., 2014; Kunter, 2015; Regner, 2015; Dorn & Suessmair, 2016).

Accordingly, applications of PWYW have proven promising for sellers, particularly in the service industry, such as in gastronomy, hospitality, or for cultural activities (Kim, Natter & Spann, 2009; Gautier & Van der Klaauw, 2012). PWYW appears a reasonable strategy for attracting new customers, offsetting low turnover periods, or even for long-term application. For example, on opening new hotels in Germany (in 1995), Singapore (in 2009) and India (in 2016), *Ibis* offered PWYW in order to attract new customers. During their low turnover season, a zoo in Münster, Germany, frequently applies PWYW and thus achieves higher turnover than otherwise, also due to cross- and up-selling effects (Die Welt, 2013). And the guided walking tour agency *Sandemans New Europe* has even demonstrated the long-term profitability of its PWYW pricing strategy.

PWYW can enable differentiation from competitors, and sellers can allow for the customers’ heterogeneous product valuation (Isaac, Lightle & Norton, 2015) and thus, their heterogeneous willingness to pay (Chandran & Morwitz, 2005). The reduced purchase risk for customers (Egbert, Greiff & Xhangolli, 2015) can result in higher purchase intentions (Chandran & Morwitz, 2005).

Such potential benefits of PWYW are of interest to any seller. Past research, however, has primarily investigated

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PWYW applications in service transactions of comparably low value. Hence, the question arises as to whether an application of the PWYW pricing mechanism would also be suitable for other industries, such as the trade with goods of high(er) value. Due to the novelty of the data set and the new insights it permits based on actual sales data of (high-value) products, the present case study is a valuable point of departure for a new PWYW research stream.

Status Quo Regarding the Use of PWYW for Goods of High Value

The financial success of PWYW strategies for sellers depends on the monetary value of the transaction. Low costs, especially low variable costs, may limit potential losses for sellers (Chao, Fernandez & Nahata, 2015; Schmidt, Spann & Zeithammer, 2015). It is assumed that the higher the monetary value of the transaction, the greater the incentive for customers to bargain, i.e. to pursue lower prices (Kim, Natter & Spann, 2009). Thus, relative to the increase in a product's or service's value, prices customers are willing to pay will decrease (Kim, Kaufmann & Stegemann, 2014).

Experimental applications of PWYW have so far primarily investigated service exchanges for goods of low value (Greiff & Egbert, 2018), with the exception of three studies, namely a PWYW application for holiday bookings with average prices between € 40 and € 2938 (León, Noguera & Tena-Sánchez, 2012), hotel room reservations under PWYW conditions with regular room prices ranging from € 80 to € 160 per night (Gautier & Van der Klaauw, 2012), and dance clas-

ses with regular prices between € 85 and € 150 per workshop (Stangl, Kastner & Prayag, 2017). In the above-mentioned cases, the average actual payments constituted from 5.1% (León, Noguera & Tena-Sánchez, 2012) to 30% (Gautier & Van der Klaauw, 2012) of the products' regular prices. The study by Stangl, Kastner, and Prayag (2017) ended with slightly more promising results, finding that, on average, participants paid up to 66.5% of a workshop's actual price for their first, and 63.7% for their second workshop.

Thus, the assumption that PWYW applications are not suitable for trading high-value products remains preliminary, due to the fact that the current empirical evidence is rather limited and not focused on products. The differentiation between service and product exchanges, however, is important as the prices customers pay for services might be distorted, e.g. by their tipping behavior. Prices paid for products might more accurately reflect their voluntary payment behavior.

Thus, to date, we do not have sufficient empirical evidence regarding the use of PWYW for high value goods to be able to draw definite conclusions (Gerpott, 2017; Stangl, Kastner & Prayag, 2017; Greiff & Egbert, 2018). Besides, prior studies on PWYW applications largely based their conclusions on hypothetical payments made by student samples (Gerpott, 2017). The present case study therefore will provide important insights based on actual payments made by a non-student sample.

In order to assess the suitability of PWYW for high-value goods, further studies, preferably analyses of actual sales data, are required. Research, however, should not only extend, but also advance prior studies by taking current knowledge

Management Summary

The participative pricing mechanism Pay-What-You-Want (PWYW) and, in particular, its profitability for sellers, has been in focus in academic research since 2009. Although to date there is no consensus on whether PWYW strategies can be financially viable, prices paid have been found to increase substantially if the strategy includes charitable donations. The case study presented here, however, indicates that for goods of a certain monetary value, customers pay prices lower than the fixed prices, even when incentivized by indirectly contributing to a charity campaign.

Main Propositions

1. Products of high value incentivize bargaining; thus, the implementation of PWYW for them should be considered carefully and undertaken with caution.
2. Sellers should consider restricting the quantity or value (in terms of regular prices) of the items that customers can purchase in order to limit their potential losses.
3. For goods of high value, the design option of linking PWYW to charitable donations appears to be ineffective for generating prices above or even equal to the regular fixed prices.



Image 1:
Impression of Store
Source: Homepage of
Cooperation Partner

on design options that drive customers' price determination into account, as these might encourage payments that are profitable for sellers.

Design options which support customers in determining the price they will pay appear particularly effective for raising the prices actually paid, as they reduce the cognitive effort and provide reference points for determining the price (Riener, 2008; Santana & Morwitz, 2011, 2013; Machado & Sinha, 2012; Schmidt, Spann & Zeithammer, 2015). Hence, providing information on the seller's costs (Schmidt, Spann & Zeithammer, 2015) or on external reference prices (Regner & Barria, 2009; Kim, Kaufmann & Stegemann, 2014; Armstrong Soule & Madrigal, 2015; Jung, Perfecto & Nelson, 2016) may raise customers' willingness to pay and the actual prices they pay in PWYW applications. Yet, the greatest positive effects on the monetary outcome in PWYW sales have been found in settings in which portions of the prices paid are donated to some charity. For example, in an amusement park, a PWYW strategy which included donations of 50% of the prices paid to charity generated the greatest revenue compared to earnings raised by strategies that donated smaller amounts or set a fixed price (Gneezy et al., 2010). Prior research attributes this effect to egoistic motives such as signaling to others or to oneself (Gneezy et al., 2012), or to the avoidance of appearing stingy or poor (Marett, Pearson & Moore, 2012).

Research Objectives

The present case study addresses the question under which conditions PWYW can be applied to high-value goods (Greiff & Egbert, 2018) and generate potential economic benefits such as those mentioned above.

In particular, the appeal to customers' fairness and equity concerns has proven successful in raising the price levels. Thus, it may be assumed that applying a PWYW strategy that allocates portions of the prices paid to a local charity will mitigate the customers' tendency to bargain for their own economic benefit. According to social exchange theory, customers will base their PWYW payments not just on their monetary transaction costs, but will also take social and psychological costs into account. The latter are particularly relevant in a charity context. Thus, in order to prevent running up social and psychological costs, an aspect which is valued higher than the maximization of economic gains, customers typically demonstrate greater willingness to pay (Gneezy et al., 2012; Santana & Morwitz, 2013).

By analyzing the sales data of a clothing retailer generated during a PWYW application, I aim to contribute valuable insights for academics as well as practitioners. The PWYW strategy applied in this case study incorporated a charity component according to which the seller donated 50% of the

Table 1: Overview of Sales

Date	Day	No. of Customers	No. of Items Bought	Sales per Day			
				PWYW	Fixed Price	Deviation from Fixed Price in € and in %	
06.02.	TUE	11	21	820.60 €	1805.85 €	-985.25 €	-55%
07.02.	WED	16	33	842.20 €	2016.35 €	-1174.15 €	-58%
08.02.	THU	26	60	1236.00 €	4616.75 €	-3380.75 €	-73%
09.02.	FRI	11	20	410.00 €	1536.20 €	-1126.20 €	-73%
10.02.	SAT	30	76	1745.00 €	4957.60 €	-3212.60 €	-64%
11.02.	SUN						
12.02.	MON	11	15	533.00 €	1134.45 €	-601.45 €	-53%
13.02.	TUE	16	19	722.95 €	1349.25 €	-626.30 €	-46%
14.02.	WED	4	8	152.00 €	346.85 €	-194.85 €	-56%
15.02.	THU	9	19	444.00 €	1144.90 €	-700.90 €	-61%
16.02.	FRI	13	22	601.00 €	1613.40 €	-1012.40 €	-62%
17.02.	SAT	32	79	2696.50 €	7007.70 €	-4311.20 €	-62%
Σ		179	372	10,203.25 €	27,529.30 €	-17,326.05 €	

Source: Author's Own Illustration.

prices customers paid to a local charity. Additionally, upon the seller's request, each article in the shop carried a price tag indicating the regular fixed price. Hence, customers were also given a point of reference for determining their own price.

Case Study: PWYW Pricing for Goods of High Value

The focal retailer offers urban, modern, and minimalist clothing for men, women, and babies, as well as a small selection of accessories. The retailer pays particular attention to the quality of the offered products, their fabrics, as well as their

finishing. This approach leads to a rather high price range of the brands sold: t-shirts cost on average € 30, regular jeans around € 116, and jackets are, on average, priced at € 230. The retailer operates four stores in Germany and one store in Switzerland as well as an online shop.

The PWYW campaign took place during the regular working hours, from 11 a.m. until 7 p.m., in a store in Germany on 11 consecutive working days in February 2018. Upon entering the store, a sign informed shoppers about the PWYW campaign and its conditions, announcing that customers could pay whatever price they wanted for any chosen article. The retailer would donate half of the price paid to a local charity. The sign further stated that the retailer was keen to find out what customers thought of the pricing strategy and how they would behave. In addition, tags on each article carried information about the campaign and its conditions. The articles' regular prices were not removed from the tags, which gave customers a reference price to support them in deciding on their price.

Customers browsed the store as usual (image 1). If they chose to buy one or more articles, they had to set a price for each article separately and announce it to the sales clerk upon checking out. Customers then paid the total amount in cash or by card. The sales clerk kept track of the purchase date, the amount and type of article(s) bought, and the regular as well as the actual price paid per article. Apart from the mentioned

Lessons Learned

1. In PWYW campaigns, prices paid for goods of high value are low, and they even relatively decrease with increasing value of the goods.
2. Design choices cannot sufficiently diminish the
3. Thus, sellers should not use PWYW to replace fixed pricing. PWYW may, however, be used as a suitable alternative to a sale, as it requires less effort and time on the seller's part.

particularities of the PWYW campaign, the sales staff operated as usual. While I did not conduct a survey amongst the customers, the retailer invited them at the moment of payment to share their motives and their attitude towards the campaign as well as towards the retailer.

Results of the Case Study

The analysis of the sales data reported below allows me to comment on whether a charity component (in addition to a reference price) can be an appropriate measure to make a PWYW campaign for high-value goods profitable for sellers. The underlying aim of the selected design options was to encourage customers in their willingness to pay, and thus to generate payments in a reasonable proportion to the goods' value.

In total, 179 customers purchased 356 articles during the 11 days of the PWYW campaign. Most of the articles customers bought belonged to the category women (42%), followed by children (30%), men (27%), and accessories (1%).

On average, customers purchased 1.98 articles per transaction, of which on average 1.34 articles were sold on Mondays to Wednesdays, and 2.07 on Thursdays to Saturdays. Compared to the regular price, prices paid were particularly low on days close to the weekend. On Thursdays to Saturdays, customers paid on average only 34.5% of the tag price, while on Mondays to Wednesdays they paid on average 48% of the regular price. Table 1 provides an overview of the sales generated during the PWYW campaign.

The results indicate that, overall, customers paid 38% of the regular price. Only one of the 179 customers paid a price

equal to the regular price. Also, only one customer paid less than 10 % of the regular price. No customer paid a price of zero (see figure 1).

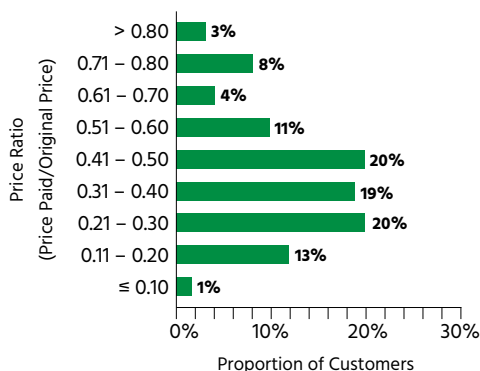
Results of a t-test demonstrated that losses were significantly smaller in the male category ($M = -52.19 \text{ €}$, $SD = 30.04 \text{ €}$) compared to the female category ($M = -63.71 \text{ €}$, $SD = 46.68 \text{ €}$; $t(195) = -1.94$, $p = 0.02$). Further, losses were significantly greater in the second half (Thur–Sat: $M = -113.58 \text{ €}$, $SD = 130.01 \text{ €}$) compared to the first half of the week (Mon–Wed: $M = -61.75 \text{ €}$, $SD = 65.71 \text{ €}$; $t(177) = -2.86$, $p = 0.00$).

If customers purchased one article only, prices paid were on average 44% of the regular price, thus closer to the regular price, than if they purchased two or more articles, for which the average was 34% of the regular price.

The deviation from the regular fixed price was negatively correlated with the level of the regular fixed price (-0.9485) i.e., the higher the indicated monetary value of the garment, the less customers paid. Up to a tagged value of € 100, customers paid 42% of the regular price, for goods with values of up to € 200 they paid 39%, and for goods with a value greater than € 300, customers paid as little as 33% of the regular prices (see figure 2 for further details).

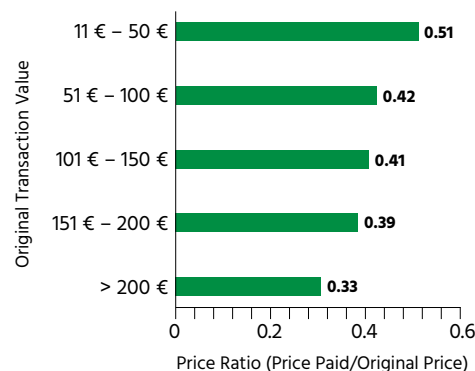
In summary, customers set prices that deviated strongly from the regular fixed price; prices paid were markedly lower than the regular prices. This was especially true towards the end of the week. It appears that findings of prior research regarding PWYW with charity components (see, e.g., Gneezy et al., 2010) could not be confirmed by this case study. Also, I found that relative to the value as well as the quantity of a customer's purchase, the prices they paid de-

Figure 1: Proportion of Customers per Price Ratio



Source: Author's Own Illustration.

Figure 2: Price Ratio per Original Transaction Value



Source: Author's Own Illustration.

creased. Assuming that customers primarily purchase products for themselves, I find that women took greater advantage of the PWYW campaign by paying relatively lower prices. All in all, this case study allows the conclusion that customers exploited the pricing strategy for their own economic advantage.

Concluding Remarks

The results of this case study indicate that in a PWYW campaign for high-value goods customers pay prices that are considerably lower than the regular prices. And in this study, they did so notwithstanding the fact that a charity component as well as reference prices were applied.

These design choices had been expected to prevent customers from exclusively pursuing their own economic advantage, i.e. from paying lowball prices. But it seems the incentive to bargain for their own economic advantage was too pronounced for the suppositions of the equity and social exchange theories to hold. Customers apparently pay low prices rather than high prices that would compensate for the sellers' input or allow donating to charity.

Relative to the fixed price, the more the customers bought (in quantity as well as in value), the less they paid. I thus suggest that if sellers apply PWYW to goods of high value, they should limit the number of items customers can purchase to one. This might result in prices that are at least somewhat aligned to the regular fixed price.

An alternative strategy to minimize the sellers' scope for loss could be to display extremely high regular prices. In particular for the female category, in which this case study revealed the strongest bargaining behavior (compare Kim, Kaufmann & Stegemann, 2014), this could prove profitable.

Prices paid were particularly low on Thursdays to Saturdays. Hence, PWYW strategies should not be applied on typical shopping days, i.e. days shortly before the end of the week or on the weekend. Possibly, customers pursue egoistic goals especially on typical shopping days, as they want to give themselves a treat. This may include a stronger motivation to bargain, hence result in lower prices paid.

The retailer observed that even regular customers who were familiar with the products as well as the store's philosophy were keen on making a bargain and thus paid low prices. Despite their appreciation of the charity component, customers did not take it explicitly into account, nor the store's need for profit. The retailer also reported that the majority of customers were new to PWYW. Potentially, this also triggered their bargaining behavior. This conclusion underlines that at the moment


of payment, sellers should jointly determine prices with their customers, e.g. by sensitizing them to actual costs or to the impact of particularly low prices, or at least by asking them to disclose their price offer, rather than merely accepting a stated price. However, the retailer also stated that due to the minimal effort a PWYW campaign requires and the fast sell-out rate, such a pricing scheme might be suitable during sales periods, where the objective is to merely get rid of stock as quickly as

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possible. Overall, the retailer came to a sober assessment of the campaign. The selfish behavior, particularly of regular customers, came as a shock. Higher purchase rates and the expressed intention to return to the retailer for future purchases could not compensate for the extremely low prices.

In conclusion, I suggest that the participative pricing mechanism PWYW does not prove profitable when selling high-value goods. Also, design options that have been found

to raise customers' willingness to pay in PWYW applications for low-value transactions in the service industry do not appear to have the same potential to make PWYW profitable for high-value goods. The results of this study should, however, be interpreted with caution, as they are based on the analysis of sales data in one industry only. Future research should investigate the same questions with the help of some experimental methodology and for various other kinds of goods. 

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