



Exploring the Pay-What-You-Want payment motivation



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ABSTRACT

Pay-What-You-Want (PWYW) pricing is becoming increasingly popular in real-world applications, especially for cultural services and digital goods. Yet very little is known about the factors related to the customers' motivation of paying (e.g., fairness, getting a bargain). This research explores the relevance, the relative importance of these factors in PWYW contexts, and their impact on customers' payments. Five empirical studies provide a basis for a conceptual framework of PWYW pricing. Four of these studies find (in line with the prior literature) the importance and the relevance of fairness, customer satisfaction, and income. Furthermore, avoiding feelings of guilt is found to be a relevant and relatively important factor that also drives PWYW payments. This has so far not been acknowledged in the literature. In the fifth study, textual cues are applied to examine the manageability of the factors. Their presence does not affect PWYW payments in most cases.

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1. Introduction

Pay-What-You-Want (PWYW) is a pricing approach which entails the buyer (rather than the seller) of a product (goods or service) setting the price of it. The buyer can set any price above or equal to zero, and the seller may not reject the buyer's offer (see also Kim, Natter, & Spann, 2009). PWYW is becoming increasingly popular in real-world applications, especially for services (e.g., restaurants, museums, zoos) and digital goods (e.g., music and video game downloads). Economic and marketing scholars are conducting research in order to better understand this new pricing concept (e.g., Gneezy, Gneezy, Riener, & Nelson, 2012; Jang & Chu, 2012; Kim et al., 2009; Schons et al., 2014). Some authors investigate customers' variables that drive PWYW payments (Kim et al., 2009; Marett, Pearson, & Moore, 2012), but still very little is known about the relevance, importance, and manageability of such variables.

This research explores the relevance, the relative importance of motivation-related factors (e.g., fairness, getting a bargain), and their impact on customers' PWYW payments. Five empirical studies contribute to the PWYW literature in the following ways: First, the studies provide a basis for a conceptual and/or theoretical framework of PWYW pricing. Their purpose is not to review existing theory, but to gain generalizable empirical evidence on variables that drive PWYW payments. A catalog of motivation-related payment factors emerges from studying different PWYW applications (animal park, sauna, museum, zoo). Differences from findings to the existing literature will yield new insights, while similarities will strengthen existing findings and extend them to alternative applications. Second, this research is

the first of its kind to study the impact of simple textual motivation-related cues on PWYW payments. The main question is whether such cues have the ability to activate certain payment motivations in the minds of customers and to affect PWYW payments. If they do, then it is possible to manage PWYW payments by shifting the payment motivation. Generally speaking, effects of simple cues are prevalent in a carefully controlled laboratory setting, but the intention here is to uncover their role in the field, where it is inevitable that a seemingly infinite number of other cues will be present. The conduction of a large field experiment achieves high external validity of results. Moreover, the experiment analyzes how the importance of a payment motivation (e.g., the degree of perceived fairness) does drive payments.

The main results are the following: The studies find that fairness, customer satisfaction, and income are important and relevant motivation-related factors. This finding is consistent with prior PWYW research. Furthermore, avoiding feelings of guilt, which has not yet been acknowledged in the PWYW literature, is a relevant and relatively important factor that considerably drives PWYW payments. With regard to textual cues potentially affecting the manageability of the various factors, in most cases the presence of such cues does not change average PWYW payments. However, customers confronted with pro-social cues pay more than customers that face economic cues.

1.1. Literature review

So far, Kim et al. (2009) is the fundamental paper that investigates factors that affect PWYW payments. These *motivation-related PWYW payment factors* (briefly, MRPf or *factors*) are personal characteristics of customers and cannot be influenced *directly* by service-providing firms. In three field studies (lunch buffet at a restaurant, movies at a movie theater, hot beverages at a delicatessen), Kim et al. (2009)

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propose that fairness, altruism, customer satisfaction (CS), customer loyalty, price consciousness, and income affect PWYW prices paid by customers. These six variables are mainly constructs taken from the marketing literature. The authors find that fairness, CS, and income drive PWYW payments overall (i.e., all studies included in the analysis). Fair-minded or satisfied customers pay more than other customers who are not fair-minded or not satisfied. Also, customers with high income pay more than customers with a low income simply because the perceived “pain” from paying is lower. The factor *fairness* has been discussed in the PWYW literature to a sufficient extent (see Jang & Chu, 2012). In addition, customer loyalty, price consciousness, and income drive payments in the restaurant study, fairness and CS in the movie theater study, and altruism and income in the hot beverages study. There are several opportunities for extensions of this study: First, since the six variables are not derived from a conceptual framework, the question arises as to whether the pivotal factors driving customers’ PWYW payments really have been identified. Other variables, for example, “what other customers are paying” (Kunter & Braun, 2013) might affect PWYW payments as well. Second, the set of variables that drives PWYW payments varies considerably across the three studies, with the results being very hard to explain: For example, CS does not affect payments in the restaurant study. Altruism affects payments in the hot beverage but not in the movie theater study. Income affects prices in the hot beverage study, but not in the other studies. Why? Thus, there is a need for empirical PWYW studies to produce more generalizable results on this topic.

To create a framework of MRPFs, Marett et al. (2012) distinguish between economic and social variables. In their study, the authors investigate how these factors affect online PWYW prices for an electronic device application. They conduct an online survey (N = 56) and measure fairness, customer loyalty (both of which are social factors), price consciousness & prior usage of the app (both of which are economic factors) in a way that is similar to Kim et al. (2009). The authors record dependent variables as being willingness-to-pay (direct measure) and the PWYW price (actually paid) and find that 80% of participants pay nothing, while the willingness-to-pay for the application is much higher than PWYW prices (attitude-behavior gap). Price consciousness and prior usage (rather than the social variables) drive PWYW prices, a claim which appears plausible in the case of anonymous online PWYW. With only four factors investigated, the authors miss out at least some content (e.g., income). Other studies mention pro-social variables with similar content that positively affect PWYW prices, for example, inequity aversion or “keep the seller in the business” (Mak, Zwick, & Rao, 2013; Schmidt, Spann, & Zeithammer, in press).

Similarly to Kim et al. (2009), Marett et al. (2012) fail to provide a more comprehensive framework of MRPFs. A conclusion from the prior literature is that there is a need for a more exploratory, consumer-driven approach to understanding and categorizing MRPFs in a PWYW context.

1.2. Overview of studies and measurement

Table 1 provides an overview of the five conducted empirical studies that are reported in this paper. It shows that alternative trades

(e.g., museum, zoo), payment natures (real, hypothetical) and price levels of applications (low, medium, high) are of interest in order to capture a broad spectrum of PWYW contexts and to ensure more robust results.

Studies 1 and 2A explore the *relevance* of MRPFs, that is, whether consumers consciously think about these factors or not when deciding on price. Studies 2B, 3, and 4 examine the *relative importance* of MRPFs, that is, which factors are important and which of these are more important than others, respectively. Note that the collected data are not combined with PWYW prices in studies 1–4. Study 5 investigates the *impact* of alternative MRPFs on PWYW payments, and it tests whether these factors can be managed by service providers via textual cues.

As already pointed out, previous PWYW research focuses on testing the effects of known or predicted factors but fails to examine whether these are the only MRPFs. In the current research, the catalog of MRPFs is intended to originate from customers who are deciding on price, rather than from theory or prediction. Thus, a suitable measurement approach is one where measures are *simple*, *direct*, and *related* to the PWYW context. Such a method helps to identify concealed PWYW payment factors and simultaneously contributes to the robustness of the results of existing studies.

Considering *simplicity* and *directness*, studies 1 and 2A directly ask customers about their payment motivation (“*What was on your mind when you decided on the price?*”, “*What was important to you when you decided on the price?*”). Studies 2B, 3, and 4 measure the importance of MRPFs by using rating and paired comparison scales. Study 5 measures the degree to which an MRPF is present in the PWYW payment situation by recording agreement with statements on rating scales. Such *simple* single-item measures are suitable for the following reasons: First, respondents in our studies have varied education levels. Earlier research on public opinion polls shows that the use of simple and short single-item measures helps to gain better survey responses. Furthermore, in cases where results of different studies are compared, the simplicity of single-item measures appears to be more suitable. Hence, questionnaires have to be concise to avoid respondent fatigue and survey refusal (Bergkvist & Rossiter, 2007; Gorsuch & McFarland, 1972; Malhotra, Mukhopadhyay, Liu, & Dash, 2012; Oshagbemi, 1999; Wanous, Reichers, & Hudy, 1997). Second, practical constraints speak for the application of single-item measures. To keep the field studies realistic and also due to monetary costs, only few incentives to participate are provided. Only in study 1 do subjects get a monetary payoff for participating. In studies 3 and 4, subjects receive candy after completing a questionnaire. In studies 2 and 5, subjects receive nothing for their participation.

The measures used are also *related* to the PWYW context, that is, the payment situation directly beforehand experienced. Since some consumers may be, for instance, price conscious in one situation (e.g., shopping in a supermarket) but not in another (e.g., PWYW pricing in a restaurant), unrelated measures may yield ambiguous results. For example, Kim et al. (2009) measure altruism, price consciousness, and income unrelated to the PWYW context (the other factors are measured in relation to the PWYW application).

Table 1
Overview of empirical studies.

	Study 1	Study 2 (2A/2B)	Study 3	Study 4	Study 5
Application	Animal park	Sauna	Museum	Zoo	Zoo
Nature of payment	Real	Hypothetical	Real	Real	Real
Regular price (price level)	4 Euros (low)	20–25 Euros (high)	4.50 Euros (low)	14 Euros (medium)	14 Euros (medium)
Nature of study	Exploratory	Exploratory	Exploratory	Exploratory	Explicative
Data collection method	Survey with open questions (in lab experiment)	Interview with open questions/survey	Survey with paired comparisons	Survey with paired comparisons	Field experiment with questions on rating scales
Sample size	N = 26	N = 91	N = 153	N = 205	N = 4365
Data analysis method	Content analysis	Content analysis/statistical tests	Analytic hierarchy process	Analytic hierarchy process	Statistical tests, regression

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