Pay-what-you-want for high-value priced services: Differences between potential, new, and repeat customers

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A B S T R A C T

This study contributes to the limited literature on the pricing method of pay-what-you-want (PWYW) in the context of a high-value service. The study evaluates the applicability and profitability of PWYW by comparing the minimum, maximum, and PWYW prices to traditional list prices of Europe's biggest dance festival (ImPulsTanz). Results from an analysis of secondary data from ImPulsTanz reveal a pricing structure mainly demographic-based. Survey results show that PWYW prices differ between three customer groups (potential, new, and repeat). Comparing potential, new, and repeat customers, the latter is willing to pay the highest prices. Despite all customers indicating their willingness to pay for the service, PWYW prices are lower than traditional list prices. Findings also confirm the existence of three segments of customers with diverse price consciousness and quality, and value perceptions. Implications for the pricing and promotion of high-value services using PWYW are offered.

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1. Introduction

Pricing is the only element of the marketing mix that generates profit. Setting prices low enough for customers to perceive the purchase as valuable and high enough to generate profits for the seller is an art (Palmer, 2011). Pay-what-you-want (PWYW) is a participative pricing method that allows customers to pay the price they want, thereby taking away the seller's ability to set the price. As such, the customer is free to set any price (even zero) and the seller has to accept the offering (Kim, Natter, & Spann, 2009). Existing research on participative pricing approaches examines their impact on customers' fairness perceptions (Haws & Bearden, 2006), willingness to pay (Spann, Skiera, & Schäfers, 2004), and purchase intentions (Chandran & Morwitz, 2005). PWYW literature also provides insights into why the approach works in certain societies (Gneezy, Gneezy, Riener, & Nelson, 2012), which factors impact on the PWYW price people pay, and profitability level for various services (Chao, Fernandez, & Nahata, 2015; Kim et al., 2009; Schons et al., 2014). PWYW is more effective than traditional pricing approaches for services that tend to follow an economy pricing strategy (Schons et al., 2014) and when customers are aware of the cost structures (Greiff, Egbert, & Xhangolli, 2014). Apparently, PWYW is a poor strategy for luxury goods (Balan, 2014).

Studies that directly compare the profitability of PWYW for different customer groups for high-value priced service settings are absent from the literature. A high-value service is positioning a service as high-quality but sold at a medium price (Kotler & Armstrong, 2001). Accordingly, the question informing this study’s research objective is whether different customer groups will pay different PWYW prices in comparison to traditional list prices. As such, the study’s contribution is two-fold. First, this study identifies price margin differences (i.e., minimum, maximum, and PWYW prices) and profitability for three groups of customers (potential, new, and repeat). Further, unlike studies which reveal PWYW profitability by contrasting PWYW prices with one-price-fits-all prices determined by the service provider (e.g., Kim et al., 2009), this research compares PWYW with a more sophisticated traditional list price structure (i.e., various price groups and discounts). Second, this study identifies PWYW price differences regarding price perception/consciousness and quality/value perceptions to customers. These variables are relevant to customers’ willingness to pay different prices in the context of PWYW.

2. Literature review

2.1. The success of PWYW

New pricing methods allow personalized prices at the individual customer level (Grewal, Roggeveen, & Nordfält, 2014). Existing studies reveal contradictory findings on the success of PWYW. For example,
PWYW works well for charity events (Gneezy, Gneezy, Nelson, & Brown, 2010), golfing tickets (Machado & Sinha, 2013), and gastronomy (Kim et al., 2009; Riener & Traxler, 2012). However, prior studies do not support PWYW’s effectiveness for cinema tickets (Kim et al., 2009), holiday packages (León, Noguera, & Tena-Sánchez, 2012), and luxury products (Balan, 2014). Measuring the success of PWYW goes beyond a higher price paid by customers in comparison to traditional prices. PWYW also works well when the decrease in individual payment leads to higher sales volumes and revenues (Machado & Sinha, 2013). PWYW also increases word-of-mouth, forming a positive pricing image (Kim et al., 2009), and serves as non-traditional promotion method (Kim, Natter, & Spann, 2014).

2.2. Price perceptions and PWYW prices

Price perceptions develop through either external (i.e., the advertised price) (Mayhew & Winer, 1992) or internal sources by consumers. The internal reference or fair price is the amount a customer expects to pay based on past experience (Lewis & Shoemaker, 1997) or the expected future price (Jacobson & Obermiller, 1990). Comparing the external and internal prices allows buyers to decide whether or not a service is expensive. Diverging definitions on internal reference prices lead researchers to conclude that a reference price is a range rather than a single point (amount) (Alford & Engelland, 2000). Consumers have different reference price ranges (Mazumdar, Raj, & Sinha, 2005). These price ranges are usually based on maximum, minimum, and the fair price points (Lewis & Shoemaker, 1997).

Price perceptions also form through consumer’s judgements of quality and value (Oh, 2003). A higher price often serves as a signal for higher quality and vice versa (Kotler & Armstrong, 2001). Studies on price as an indicator for quality mainly examine the relationship between price and value judgements (Oh, 2003). The difference between quality and value is that the latter is at a higher level of abstraction, comprising of factors such as prestige and convenience (Holbrook & Corfman, 1985).

Both internal and external reference price roles change in a PWYW context. Fig. 1 shows the main differences between a traditional service purchase and a PWYW setting. Prior studies show (e.g., Kim et al., 2009; Schons et al., 2014) that no external or advertised reference price exists in a PWYW setting. Also, customers do not have to commit to pay a certain amount of money before they experience or consume the service – they only make a consumption commitment. In addition, customers pay a price after consumption based on price perceptions and payment triggers such as satisfaction, service quality, and/or fairness.

As Fig. 1 shows, internal reference prices play an important role in a PWYW context by impacting the price customers pay (Kim et al., 2009) and the upper PWYW price limit (Schons et al., 2014). This role differs from that found in the traditional service purchase setting where reference prices and price consciousness impact the service offering’s evaluation and subsequent purchase decision. Kim et al. (2009) show that price consciousness affects PWYW prices, but other studies suggest that price consciousness negatively affects willingness to pay (Marett, Pearson, & Moore, 2012) and initial prices paid (Schons et al., 2014). Kunter (2015) argues that making a bargain is a key motivation relating to PWYW payment factors, leading to higher price consciousness and resulting in lower prices paid. Most customers do not exploit the lower price limit of PWYW which is zero because they know that this behaviour would result in a loss for the service provider. To sustain a PWYW offer in the long term, which potentially allows a customer to pay prices below traditional ones, customers strive to pay a fair price based on cost estimates (Kim et al., 2009) which are their lower limit of a fair PWYW price (Schons et al., 2014).

2.3. Repeat customers’ price behaviour

The relationship between repeat customers and price perceptions continues to interest researchers after decades of study. Prior study results indicate that loyalty increases profitability due to positive word-of-mouth, repeat business, and customers’ willingness to pay a higher price (Wieseke, Alavi, & Habel, 2014). Loyalty decreases price sensitivity and consequently results in higher prices (e.g., Chaudhuri & Holbrook, 2001). Azar (2007) argues that loyal customers tend to pay more as they fear to feel uncomfortable but this result remains inconclusive. Other studies show that repeat customers expect higher discounts as a reward for their loyalty (Reinartz & Kumar, 2002; Wieseke et al., 2014).

PWYW research examining repeat customers and their price behaviour remains scant. Kim et al. (2009) examine loyalty in the three different contexts of a restaurant, hot beverages, and cinema tickets and find that loyalty only impacts the PWYW price in the restaurant context. More recently, Kim, Kaufmann, and Stegemann (2014) confirm the positive effect of PWYW pricing on loyalty in restaurants. Machado and Sinha (2013) demonstrate that the voluntary payment increases by around one-fourth of the average payment when customers intend to come back. However, loyalty intention for frequently bought services does not impact prices paid (Schons et al., 2014). The nascent body of PWYW research provides contradictory results on how this pricing strategy affects different customer groups.

3. Methods

3.1. The research context and approach

ImPulsTanz is Europe’s biggest festival for contemporary dance, offering >200 workshops to dancers instructed by internationally renowned teachers/choreographers (ImPulsTanz, 2015). According to experts in this field, these workshops are at the highest international standard while the price is set at the mid-range. This company positions the offer as a high-value service.

Experiments are not necessarily either qualitative or quantitative in nature, but they can include a continuum of data collection and analysis. The selling price of the workshops is set at the mid-range, with no external reference price. As a result of this project, the price of the workshop is set at the mid-range, with no external reference price.
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