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An Insight into Pay-what-you-want Pricing

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Introduction

In recent times many retailers have resorted to a differentiated pricing strategy called pay-what-you-want (PWYW) pricing. PWYW is an innovative pricing strategy which gives maximum price control to buyers (Gneezy *et al.*, 2010). The marketing literature recognizes PWYW as one of the “participative” pricing mechanisms, others including strategies like name your own price (NYOP), as well as forward and reverse auctions (Chernev, 2003). A differentiating feature between PWYW and other participative pricing strategies is based on the fact that under PWYW the buyer can pay any price, including nothing (zero), and the seller cannot withdraw the offer (Gneezy *et al.*, 2010). In contrast, in other participative pricing mechanisms, the buyer can be denied an offer if his/her offered price is below an undisclosed threshold price, set beforehand by the seller (Kim *et al.*, 2009). PWYW examples come mainly from the food and beverages industry such as restaurants like “Weinerei” in Berlin, “Terrabite” in Seattle and “Annalakshmi” in Singapore, although its application in the music industry, for example, in regard to the band “Radiohead”, has also been mentioned in the literature (Kim *et al.*, 2009).

Currently, the body of research is very limited on PWYW pricing with a small number of studies trying to understand this innovative strategy (Riener and Traxler, 2012; Gneezy *et al.*, 2010; Kim *et al.*, 2009). Kim *et al.*'s (2009) study is by far the most comprehensive one reported in the marketing literature. The topic of PWYW is unique for several reasons. First, allowing maximum pricing control to buyers enhances

perceptions of fairness and shopping intentions (Chandran and Morwitz, 2005). Second, this innovative pricing mechanism can restore consumers' confidence in retailers' credibility, especially when other pricing strategies, like hi-lo, are increasingly losing effectiveness (Hoch *et al.*, 1994). Third, given that prices paid can technically range from anything (including zero), research evidence reports that this model can still return profits for certain industries (such as restaurants) and can be viable in the long run (Riener and Traxler, 2012; Kim *et al.*, 2009). Finally, according to certain scholars, the whole field of participative pricing can benefit from additional research, namely to understand this interesting phenomenon (Riener and Traxler, 2012; Gneezy *et al.*, 2010; Chernev, 2003).

The current research provides new knowledge on the processes that shape pricing decisions in the PWYW context, thereby enhancing scholars' and practitioners' understanding of this interesting phenomenon. Further, it also addresses major theoretical gaps in the literature, not addressed by Kim *et al.* (2009). First of all, Kim *et al.* (2009) specify that their model only studies the direct effects of independent variables like price consciousness and internal reference price (IRP) on willingness to pay (WTP). In doing so, they failed to consider the more nuanced relationship between these variables as posited in the literature. For example, in the presence of external pricing cues, findings show that consumers' IRP drives WTP (Thaler, 1985; Bell and Latin, 2000), this relationship being further moderated by involvement and price consciousness (Thomas and Menon, 2007; Mazumdar *et al.*, 2005; Erdem *et al.*, 2002; McCarville *et al.*, 1993). Evidently, Kim *et al.* (2009) did not focus on these higher order interactions despite their mention in the literature.

Secondly, Kim *et al.* (2009) did not study the role of “product involvement”, although current literature clearly indicates its influence on pricing (Ofir, 2004; Lichtenstein *et al.*, 1988). Further, through their research design of field experiments across different product categories, Kim *et al.* (2009) could have accidentally manipulated “involvement”. The authors themselves acknowledge that this could have potentially confounded their findings. The current study therefore addresses these gaps, by studying how higher-order relationships between involvement, price consciousness and IRP will influence WTP in the PWYW pricing context. This is the key premise of the current work. To the best of the author’s knowledge, no such study has been conducted before.

The findings of the current study, especially with regard to involvement, are counter-intuitive and novel when compared to the extant wisdom. For example, the current literature posits that when external prices are mentioned (e.g., an offer price) high involvement may have a positive impact on prices consumers are willing to pay (Lichtenstein *et al.*, 1988). In contrast, findings from this study show that in the PWYW context, individuals with high involvement actually pay lower prices. Notably, understanding the intricacies underlying PWYW pricing is important since these businesses are capable of attracting different types of consumers, for example, consumers that look for a unique experience and others that seek lower prices (Kim *et al.*, 2009).

The rest of the paper is organized as follows. Firstly, the relevant literature is reviewed from which the hypotheses are generated. Following this, evidence is presented from a survey designed to test the hypotheses, followed by a discussion of the

implications of the findings for theory and practice. Finally, limitations of the current work with directions for future research are discussed.

Literature and hypotheses

PWYW

PWYW is a form of participative pricing mechanism that delegates the whole pricing determination to the buyer (Gneezy *et al.*, 2010). The seller offers one or more products under PWYW conditions and the buyer decides on the price. The seller has to accept whatever price the buyer has decided (which may include a price of zero) and accept it without withdrawing the product offer (Gneezy *et al.*, 2010).

PWYW pricing is distinctive from other participative pricing mechanisms like auctions and NYOP. For example, in “classic auctions” multiple buyers compete with their increasing bids to buy a product from a seller. A “reverse auction” on the other hand demands multiple sellers provide competitively decreasing bids to sell a product to the buyer. Other mechanisms may involve “exchanges” in which multiple buyers and sellers may negotiate under NYOP. The key difference between NYOP and PWYW lies in the fact that in the latter a buyer has full control over the price she or he wants to pay (Kim *et al.*, 2009), while in NYOP the seller can reject a buyer’s offer if the price is below an undisclosed threshold (set by the seller in advance). In the PWYW condition, no threshold price is set by the seller, who has to accept any price offered by buyer.

The innovative pricing strategy under PWYW has several benefits for consumers. First, consumers can participate actively in the price-setting process which leads to higher perceived control and purchase intention (Kim *et al.*, 2009). Haws and Bearden (2006)

argue that consumers have greater perceptions of fairness and satisfaction when they play an active role in the price-setting process. The PWYW mechanism also allows for individually differentiated prices as an outcome of the interaction, thereby resulting in heterogeneous valuations of consumers (Spann and Tellis, 2006). Finally, the innovative mechanism also allows the seller to attract more buyers and serve consumers who would be otherwise priced out of the market (Kim *et al.*, 2009).

Motivations underlying PWYW pricing are guided by Heyman and Ariely's (2004) theory of exchange relationships; with a focus on "social-market" rather than "money-market" relations. In a money-market relationship, exchange between two parties is governed by the use of a value or utility metric. In a social-market relationship, consumers act according to social exchange norms driven by considerations like norms of reciprocity, norms of cooperation or norms of distribution (Heyman and Ariely, 2004). Since no external pricing cue is provided by the seller under PWYW, the conditions invoke social-exchange norms as typical money-market relationships are dissolved by allowing the buyer to have maximum control over pricing decisions (Kim *et al.*, 2009).

Although technically the buyer can pay any price under PWYW (including zero), the successful implementation of this model in online and offline situations shows that consumers behave seemingly irrationally, contrary to what standard economic theories would predict. In fact, while standard economic theories posit that consumers would maximize their utility function by paying nothing, research evidence shows that consumers rarely do so (Gneezy *et al.*, 2010; Santana and Morwitz, 2011; Kim *et al.*, 2009). The reason for this is that people are less willing to violate social norms (by paying nothing) as it can lead to social disapproval and distress (Ariely *et al.*, 2007).

In the absence of any external pricing cue, people often rely on memory-based cues to guide pricing decisions in the PWYW setting (Kim *et al.*, 2009). One such cue that has been predominantly described in the literature is IRP. Current evidence shows that IRP is malleable, context dependent and acts as an antecedent to WTP in pricing decisions (Helson, 1964; Thaler, 1985).

IRP

IRP is a memory resident price based on actual, fair or other price concepts (Garbarino and Slonim, 2003; Lowengart, 2002). IRP in this sense is a price from the internal judgment scale of a consumer that is used as the standard to judge offered prices (Winer, 1986; Mazumdar *et al.*, 2005). The literature distinguishes IRP from external reference price (ERP). ERP is based on the external stimuli in the purchase environment, e.g., regularly offered prices and advertised retail prices (Mazumdar and Papatla, 2000).

Research evidence shows that consumers may use both IRP and ERP in pricing decisions (Mazumdar *et al.*, 2005). However, in the absence of external pricing cues in the PWYW context, consumers are more likely to use IRP (as against ERP) to guide their decisions (Kim *et al.*, 2009).

The conceptualization of reference price in marketing literature has been mainly influenced by Helson's adaptation level theory, which posits that people judge a stimulus relative to a level to which they have adapted (Helson, 1964). In the pricing context, IRP can be therefore viewed as consumers' predictive price expectation mainly shaped by each consumer's prior price experience and the current environment. This reference point serves as an adaptation level against which other price stimuli are judged (Monroe, 1973).

Psychological perspectives, such as the assimilation-contrast theory (Sherif and Hovland, 1964), also suggest that consumers regularly update their IRP by assimilating new price information from the external environment. However, this new price information is assimilated only if it fits the consumer's prior level of acceptable price distribution for a certain product category (Sherif and Hovland, 1964).

Current theories suggest that IRP is created in different ways. For example, it can be based on prices from previous periods (Winer, 1986); weighted or smoothed average of past prices (Greenleaf, 1995); price of last brand purchased (Hardie *et al.*, 1993); or prices normally paid for a product or service (Lowengart, 2002). The literature also supports another conceptualization of reference prices based on social and normative dimensions. For example, a normative reference price is one that is deemed "fair" or "just" for the seller to charge (Garbarino and Slonim, 2003; Klein and Oglethorpe, 1987) while an aspiration-based reference price is based on what others in a social group would pay for a similar product or service (Mezias *et al.*, 2002).

IRP and WTP relationship

The current marketing literature argues that IRP positively influences final WTP prices (Thaler, 1985; Bell and Latin, 2000; Ranyard *et al.*, 2001). The most prominent evidence comes from the classic experiments conducted by Thaler (1985). This study shows that consumers were willing to pay a significantly higher price when the same beer was sold in a fancy resort hotel as compared to a small run-down grocery store. Consumer differences in WTP were mainly influenced by the IRP in addition to the seller context. Similarly, subsequent research that replicated the beer-pricing task with different product

categories (Ranyard *et al.*, 2001) report similar findings. Results from this study once again confirmed that in the absence of an ERP, consumers' general price experience with the product category (e.g., reference prices) had a significant effect on WTP.

In the context of PWYW, findings show that consumers' IRP is positively associated with WTP (Kim *et al.*, 2009). Results from this study show that consumers in the PWYW setting held a prior reference price, operationalized as the amount of money they normally paid for a similar product on their last shopping trip. Further, the adaptive function of this internal standard determined the final prices paid. Across different product categories tested, evidence showed that final prices paid varied from 82 per cent of IRP (restaurant) to an 86 per cent average across all product categories. Further, for some product categories (hot beverages), customers actually paid prices which were significantly higher than regular normal prices, although for some other categories like cinemas, it was significantly lower. In the current study, based on the extant literature, the following confirmatory hypothesis is posited:

H1: In the PWYW context, consumers' IRP will be positively related to their WTP.

Further, consistent with adaptation level theory, consumers' prior purchase experiences, the current purchase context and individual characteristics of consumers influence formation and retrieval of reference price and its subsequent effect on price decisions (Mazumdar *et al.*, 2005). The discussion in the following section elaborates on

how consumer characteristics, like involvement and price consciousness, may moderate the reference price/WTP relationship in the PWYW context.

Moderation of IRP–WTP by product involvement

Zaichkowsky (1985) defines involvement as the level of personal relevance that a product or purchase decision has for a consumer. Laurent and Kapferer (1985) further observe that involvement may not only concern product or purchase decisions, but may also apply to product advertisements. For the current study, product involvement is conceptualized as an individual difference variable, namely an “enduring interest” in a given product (Bloch and Richins, 1983; Zaichkowsky, 1985).

Highly involved consumers deliberate on all attributes of the product including price, but may be relatively less concerned with price as compared to the actual product experience (Ofir, 2004; Lichtenstein *et al.*, 1988). Consequently, these people also demonstrate higher acceptability of prices and are more likely to view price in its positive role (price as indicator of quality) as against its negative role as a sacrifice (Lichtenstein *et al.*, 1988; Ofir, 2004).

Involvement also influences the way consumers gather, process and retrieve information (Bloch *et al.*, 1986). For example, involvement is positively associated with motivation to search for product- and brand-relevant information, including prices (Zaichkowsky, 1985). As a result of this motivated search process, highly involved consumers often possess well-defined internal standards (such as IRP) as compared to their less involved counterparts (Chandrashekar, 2012). Further, these people show more confidence in pricing decisions, particularly in situations that involve comparison of

internal standards against external price information (Biswas and Sherrell, 1993). In fact evidence shows that less involved consumers may have a higher IRP as compared to their more confident counterparts, although they might not differ in their articulated price expectations (Thomas and Menon, 2007).

Highly involved consumers are also capable of adjusting their IRP based on the situational context (Chandrashekar, 2012; McCarville, 1991; McCarville *et al.*, 1993). It is expected that given the nature of information searches undertaken by highly involved subjects (Bloch *et al.*, 1986) coupled with their tendency for higher cognitive elaboration (Kisielius and Sternthal, 1986), they are more likely to elaborate on all aspects of the product offering in the PWYW context. However, the PWYW context may have different implications for high-involvement consumers' pricing decisions as compared to their low-involvement counterparts.

Current research shows that the PWYW context may create uncertainty, as it is contrary to the everyday pricing scenario. For example, in a normal pricing scenario consumers do not decide their own prices, unlike the PWYW context (Machado and Sinha, 2012). Evidence shows that when faced with decisions that encompass uncertainty, highly involved consumers can demonstrate higher price sensitivity and less favourable pricing decisions (Erdem *et al.*, 2002). Secondly, consumers that have well-developed internal standards like the IRP are relatively more confident about making price decisions involving IRP and are also capable of adjusting their internal standards based on the context (Chandrashekar, 2012; Biswas and Sherrell, 1993; McCarville *et al.*, 1993). Finally, since these consumers are more likely to elaborate on all aspects of the offering, the PWYW offer of a highly discounted price (including no price) may affect

their perception about the consumption experience itself. For example, evidence shows that when consumers elaborated on the intrinsic (e.g., ingredients) and extrinsic (e.g., brand) product cues, a discounted price as compared to the full price led to a reduced product efficacy belief (Shiv *et al.*, 2005). Results from this study showed that when consumers paid a discounted price for a product (an energy drink thought to increase mental acuity), they perceived deriving less actual benefit from consuming this product (able to solve fewer puzzles) than consumers who purchased and consumed the exact same product but paid its regular price (Shiv *et al.*, 2005).

In sum, high-involvement consumers are more likely to elaborate on the PWYW offering and adjust their IRP, thereby weakening the IRP–WTP relationship. Low-involvement consumers, on the other hand, are likely to be more reliant on their IRP since prior research shows that these consumers undertake less cognitive effort and are likely to engage in heuristic-based decisions. This leads to the next hypothesis.

H2: In the PWYW context, the positive relationship between IRP–WTP will be moderated by product involvement. The relationship will be stronger (weaker) for low (high)-involvement consumers.

Moderation of IRP–WTP by price consciousness

The PWYW context may pose challenges for price-conscious consumers as well. Price-conscious consumers are intrinsically motivated to search and seek lower prices (Alford and Biswas, 2002; Lichtenstein *et al.*, 1993). For example, a price-conscious consumer is motivated to purchase products on sale rather than with regular prices (Lichtenstein *et al.*,

1993). Price-conscious consumers are more likely to react to “lower price is better” and show lower threshold for price acceptability when compared to people who are not conscious of price (Ofir, 2004). Price-sensitive consumers are more averse to losses and continue to look for and pay lower prices for their purchases (Bell and Latin, 2000). In fact, they may view shopping for lower prices as a competitive act, with associated rewards like pride and entertainment (Alford and Biswas, 2002).

However, the PWYW context has interesting connotations for price-conscious people. Although technically these consumers may minimize losses by paying rock-bottom prices (including zero prices), this is unlikely to happen. First, it has been argued previously that PWYW pricing is based on social rather than economic consideration. Second, for price-conscious consumers, PWYW strategy may also entail other benefits. For example, the PWYW context may signal a guaranteed low price, like at an everyday low price (EDLP) store. In this sense price conscious consumers should be able to verify the “attractiveness” of the deal being offered and also enjoy associated emotional benefits (Alford and Biswas, 2002). Finally, PWYW strategy should enhance perception of pricing fairness; evidence shows that consumers are likely to be less price sensitive in product categories where they perceive price fairness (Sinha and Batra, 1999).

As price-conscious consumers are more susceptible to promotional purchases (sale prices) they are more likely to have a lower IRP (Mazumdar *et al.*, 2005). Bell and Lattin (2000) further contend that price-sensitive consumers have a lower reference point since on average they pay lower prices for products and services purchased. There is also evidence that shopping context can moderate the IRP. For example, the IRP for brands sold at an EDLP store are lower than those of brands sold at a hi-lo store (Shankar and

Bolton, 2004). In the PWYW context Kim *et al.* (2009) found that price consciousness (held as a constant in their models) plays a negative influence by lowering the final prices paid in their overall model. Therefore, based on the literature it seems that the PWYW context will moderate the IRP-WTP relationship, especially for price conscious people.

This leads to:

H3: In the PWYW context, the positive relationship between IRP-WTP will be moderated by price consciousness. The relationship will be weaker (stronger) for high (low) price-conscious consumers.

Methodology

Sample

A paper and pencil survey was conducted at a large Australian university. A total of 300 students (121 females) completed the study. In total, 70 per cent of the respondents were in the age group of 19–28 years.

Survey instrument

The survey instrument was divided into two sections. The first section consisted of a description of an ethnic restaurant that offered good food in a nice ambience without charging customers a fixed price. Further, they were also informed that the restaurant operated using a PWYW model. Students also learned that the restaurant supported charity work in developing countries and was managed by volunteers who didn't get paid for working at the restaurant. The stimulus was linked to charity because evidence shows

that when PWYW was associated with charity, consumers paid significantly more in comparison to when PWYW strategy was engaged without charity (Gneezy *et al.*, 2010).

Respondents were further asked to imagine that they had dined at this restaurant and were satisfied with the food, ambience and service. Following this, they were asked the amount of money that they would be willing to pay for their food. This section was followed by items that measured key constructs like product involvement, price consciousness and reference price. Towards the end respondents indicated their gender, age and monthly income and were thanked for participating in the survey.

Scales and measurements

1. Consumers' WTP was measured by asking the amount of money (in Australian dollars) they were likely to pay after dining at the restaurant (Kim *et al.*, 2009).
2. Product involvement was captured by nine seven-point semantic differential scales (e.g., important/unimportant, relevant/irrelevant, exciting/unexciting, etc.) adapted from Zaichkowsky (1985); cronbach's $\alpha = 0.93$.
3. In line with current literature, IRP was operationalized as memorized price of past purchases of similar or comparable product or services (Lowengart, 2002).
4. Price consciousness was measured with a three-item, five-point Likert scale (with 1 = strongly disagree and 5 = strongly agree as end points), adapted from Donthu and Gilliland (1996); cronbach's $\alpha = 0.76$.

All the scale items are reported in Appendix A.

Analysis and results

The key variables of interest in the study were measured on very different scales. WTP and IRP were Australian dollar estimates ($M = 22.9$, $SD = 15.89$ and $M = 22.3$, $SD = 13.8$, respectively) while the other independent variables, e.g., involvement and price consciousness, were measured on a Likert scale ($M = 4.01$, $SD = 0.99$ and $M = 2.8$, $SD = 0.74$, respectively). In order to make meaningful comparisons, all the variables were transformed into a z-score with a mean of 0 and standard deviation of 1 (Aiken and West, 1991). All the analyses were subsequently performed with the standardized variables.

The bivariate correlations between the variables are reported in Table 1. Firstly, WTP is significantly associated with all the three predictor variables. In agreement with the extant literature, both involvement and IRP are positively associated with WTP, while price consciousness has a negative association. Secondly, involvement is also significantly associated with both price consciousness and IRP. A significant positive association between involvement and price consciousness shows that highly involved consumers are more price sensitive in the PWYW context, which supports similar findings from Erdem *et al.* (2002).

[Insert Table 1 about here]

Although not articulated in the form of a hypothesis, a t-test was conducted with “zero” as the test variable to explore whether prices paid in the PWYW context are significantly greater than zero. Results showed that in the PWYW context, consumers will pay an amount greater than zero ($M = 22.98$), which was significantly higher than

the test value at $p < 0.001$. This allays the commonest fear that consumers will pay nothing and supports the social mechanism underlying this phenomenon.

To test the key hypotheses in the study, a hierarchical multiple regression analysis was performed along with “spotlight” analysis following recommendation from existing scholars (Irwin and McClelland, 2001). In the first model, demographic variables such as income, gender and age were entered as the independent variables while WTP was the key dependent variable. Results showed that the overall model was not significant ($F(3,296) = 1.19, p > 0.05$). Findings therefore show that the demographic variables are unlikely to affect WTP in the PWYW setting.

In the second model, the main variables of interest like involvement, price consciousness and reference price were used as the independent variables while WTP served as the dependent variable. The overall model was significant this time, with around 54.9 percentage of variance explained in the dependent variable ($R = .74, R^2 = .55, F(6,293) = 59.38, p < .001$). Adding the independent variables significantly improved prediction (R^2 change = .54, $F = 116.17, p < 0.001$). Both involvement and price consciousness did not have a significant effect on WTP ($\beta = .022$ and $-.072, t = 0.52$ and $-1.75, p > 0.05$). However, in accordance with the literature, IRP had a positive significant impact on WTP ($\beta = 0.72, t = 17.45, p < 0.01$). Results confirmed that in the absence of external price cues, reference price drives WTP even in the PWYW context. **H1** is thus supported.

The key motivation for the current research was to study how reference price is moderated by involvement and price consciousness in the PWYW context. To this effect,

a third regression with the above independent variables along with the possible two- and three way-interactions between them was run. The interactions were computed based on the standardized independent variables.

The overall model was significant ($R = .788, R^2 = .622, F(10, 289) = 47.45, p < .001$). Price consciousness had a significant negative impact on WTP ($\beta = -0.092, t = -2.35, p < 0.05$). Reference price had a positive and significant impact on WTP ($\beta = 0.654, t = 13.21, p < 0.001$). Most importantly, the two-way interaction between reference price and involvement was significant ($\beta = -0.177, t = -4.59, p < 0.001$). Similarly, results showed that the reference price is also moderated by price consciousness ($\beta = -0.192, t = -5.203, p < 0.001$). Neither the third two-way (between involvement and price consciousness), nor the three-way interaction was found to be significant. Addition of the two-way interaction terms significantly improved prediction (R^2 change = .073, $F = 13.89, p < 0.001$). Table 2 presents the stage-wise models and results.

[Insert Table 2 about here]

Recall that part of the argument in the literature review was to understand closely how reference price is moderated by levels of involvement and price consciousness in the PWYW context. In order to do this, a simple slope analysis, as recommended by Aiken and West (1991), was conducted. Simple slopes for the association between reference price and WTP were tested for low (-1 SD below the mean) and high ($+1$ SD above the mean) levels of involvement. Each of the simple slope tests revealed a significant positive association between reference price and WTP, but the reference price was more strongly

related to WTP for low levels of involvement ($b = .97$, $SEb = .07$, $t = 14.1$, $p < 0.001$) than high levels of involvement ($b = .66$, $SEb = .04$, $t = 15.1$, $p < 0.001$). Increase in involvement by +1SD seems to lower the positive impact of reference price on WTP by $-.157$. Figure 1 plots the simple slopes for the interaction, which shows much steeper slope for the low-involvement curve as compared to the high-involvement one. The results of regression followed by slope analysis therefore support **H2**.

[Insert Figure 1 about here]

A similar method was followed to study the association between reference price and WTP at low (-1 SD below the mean) and at high ($+1$ SD above the mean) levels of price consciousness. Once again each slope revealed a significant and positive relationship between reference price and WTP. However, reference price had a stronger association with WTP at low levels of price consciousness ($b = .76$, $SEb = .04$, $t = 19.8$, $p < 0.001$) as compared to high levels of this moderator variable ($b = .43$, $SEb = .07$, $t = 6.1$, $p < 0.001$). Increase in price consciousness by +1SD seems to have a dampening effect on the positive relationship between reference price and WTP by $-.165$. Figure 2 plots the simple slope for this interaction. **H3** is thus supported.

[Insert Figure 2 about here]

Discussion

A survey was conducted to understand how product involvement and price consciousness moderates the IRP–WTP relationship in the PWYW context. Based on pricing literature (including limited PWYW), it was argued that IRP is associated positively with WTP and

acts as the immediate antecedent. In the PWYW context, the results once again confirm this relationship. In fact, the second regression model shows that reference price had the largest influence on WTP, judging by its β weight and the variance. The results also allayed the commonest fear by showing that people are willing to pay prices that are significantly greater than zero in the PWYW context.

However, of key interest for this research were the moderating roles played by product involvement and price consciousness. These two variables, as the literature highlights, motivate people to focus on different dimensions of an offering. While the former concerns primarily the product experience, the latter focuses on paying lower prices. The PWYW context presents an interesting opportunity for consumers with these different motivations.

Results from the study show that contrary to current wisdom in pricing, high product involvement may not necessarily be a good thing for PWYW prices. Although product involvement does not have a direct impact on WTP prices, higher levels of involvement are detrimental for the IRP–WTP relationship. It was argued that subjects with high product involvement may perceive uncertainty in the PWYW context, elaborate more on the offering and may end up adjusting their IRP. This ultimately weakens the reference price/WTP link and leads to lower prices being paid, in comparison to their low-involvement counterparts.

Price consciousness on the other hand plays a slightly different role. It not only has a direct and negative impact on WTP, but it also moderates the reference price/WTP relationship. Price consciousness has a dampening effect on the reference price/WTP relationship, but more for highly price-conscious people. It was argued that these groups

of people are habitually used to paying lower prices and may also possess a lower IRP as compared to their less price-conscious counterparts. To the best of the author's knowledge, these moderating effects have not been studied in the PWYW context before, despite their clear importance in the literature.

The current work enhances understanding of PWYW pricing strategy in several ways. First of all, Kim *et al.* (2009) state that product involvement might have confounded their results since they tested their models across several product categories, which could have in turn manipulated involvement. The current study shows that product involvement is indeed an important variable, and plays a somewhat counterintuitive role. Although current literature predicts involvement to have a positive impact on prices paid, it does not influence prices directly in the PWYW context. It rather presents a boundary condition for the reference price/WTP relationship, and limits final prices paid. Another interesting dimension is the contribution of price consciousness, which certainly plays an important role. Similar to Kim *et al.* (2009), it was found that this variable plays a direct and central role, but also has a higher order role as it weakens the reference price/WTP relationship. The higher order role was not studied by Kim *et al.* (2009).

The current work has practical implications for managers. Firstly, pricing strategy under PWYW conditions seem to be driven by individual difference variables like product involvement and price consciousness. The decision to offer their own prices leads to higher perceived uncertainty amongst consumers (Machado and Sinha, 2012), where people who are even more involved with the product experience become price sensitive. It is therefore important for managers to reduce this uncertainty by focusing on consistent quality and possibly engaging in building brand credibility (Erdem *et al.*, 2002).

However, managers should also keep an eye on the cost structure (increasing fixed costs) and deliver value that is commensurate with prices paid in the PWYW condition.

Alternatively, established brands with credibility may try this strategy on a short-term basis with a portion of proceedings donated to charity (Gneezy *et al.*, 2010). For example, “McDonald’s”, instead of running EDLP snacks, may adopt a PWYW strategy (for a limited time) with partial donations to a child cancer foundation. This should increase store traffic, as well as business turnover and may contribute to profit levels.

In terms of segmentation, the findings also show that people who only focus on the product experience may not be the most attractive customers for PWYW businesses. Instead, managers should make an effort to increase their customer base by attracting more casual shoppers. Finally, price-conscious consumers who are on the constant lookout for low prices may be naturally attracted to this setting. However, managers should make an effort to decrease their price sensitivity by highlighting to these consumers that the PWYW pricing guarantees better value for their money in relation to fixed price offerings. Price-sensitive consumer may not necessarily pay the lowest price available but tend to pay a lower price when expensive alternatives cannot be justified (Lichtenstein *et al.*, 1988). Price-conscious consumers do accept higher prices, but may require explicit justification like better value for increased outlays (Lichtenstein *et al.*, 1988).

Limitations and future research

The current work has several limitations. Firstly, the current study is more exploratory in nature, focusing on the higher-order relationship between variables, rather than simple

effects of key variables. For example, the current study controls for “satisfaction”, which could have clearly influenced the results. Future work may focus on the more causal nature of some of these variables, e.g., satisfaction, by manipulating them in a laboratory setting. Secondly, although the possible underlying mechanisms for the phenomenon have been discussed, they have not been directly tested. Future studies engaging experimental design may study some of these mediating processes. For example, do high-involvement (or low-involvement) consumers undertake differential cognitive elaboration? Thought listing techniques can delve deeper into this by understanding whether “uncertainty”, as well as “confidence” in making price judgments matter differentially to these different groups of consumers.

Future research may also explore whether experiencing higher incidental prices, or past price experiences (e.g., from being exposed to different prices for the same product category) can influence PWYW prices paid. For example, it is possible that the PWYW prices for a “dine-in” restaurant may be different from the PWYW prices paid at a “fast food” restaurant. The restaurant described in the study uses “cause”-related marketing, which could have limited generalizability. The usage of cause-related stimuli was based on the literature (Gneezy *et al.*, 2010), and as noted under the “discussion” section above, can be potentially engaged by current brands to offer products under the PWYW pricing. However, future studies may use other “product categories” and “services” that do not support cause-related marketing to extend the current findings.

Finally, the student sample used in the research can limit generalizability, although prior work e.g. Ok *et al.* (2008) supports the usage of student sample in consumer research. Further, some of the important works cited in the area of pricing in

the literature section (e.g., Thomas and Menon, 2007; Shiv *et al.*, 2005) uses student sample for theory building purpose. However, future studies may extend the current findings in the context of actual consumers and across different cultures for the purpose of external validity.

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