

Exploring the Role of Social Visibility and Goal Framing in PWYW Pricing

ABSTRACT

Pay what you want (PWYW) is an innovative participative pricing mechanism that allows consumers to pay any price (including zero) for a product or service. We contribute to the growing literature on PWYW pricing by showing that consumers' price consciousness moderates the effects of altruism and internal reference price on their willingness to pay (WTP). Moreover, social visibility (private vs. public) moderates the impact of consumer goals (intrinsic vs. extrinsic) on WTP and this interaction disappears in the presence of an external reference price.

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INTRODUCTION

Pay what you want (PWYW) is an innovative participative pricing mechanism that allows consumers to exercise full control over pricing by letting them pay any price (including zero) for a product or service (Chandran and Morwitz, 2005; Kim, Natter and Span, 2009; Santana and Morwitz, 2011). However, Kim et al. (2009) explore only the direct effects of altruism, price consciousness and reference prices on consumers' willingness to pay (WTP) but ignore their interactions with each other. Second, there are mixed findings about the impact of social motivations on PWYW pricing decisions, with Kim et al. (2009) showing that consumers pay a price higher than zero in 'face-to-face' PWYW interactions; Gneezy et al. (2012) show that 'social visibility' has a negative effect on the prices paid by the consumers, whereas Machado and Sinha (2012) did not find any significant effect of social visibility.

We address both these research gaps with a new conceptual framework incorporating the moderating role of price consciousness on the influence of altruism and internal reference prices (IRP) on WTP, and the interactions among goal framing (intrinsic vs. extrinsic), social visibility (private vs. public) and external reference prices (ERP). We then use two studies, a field survey and a lab experiment, to test all our hypotheses.

THEORETICAL BACKGROUND AND HYPOTHESES

Moderating Role of Price Consciousness

Consumers with high levels of price consciousness tend to have lower IRP (Mazumdar *et al.*, 2005) and they are more likely to look for and pay lower prices for their purchases (Bell and Latin, 2000). We argue that highly price conscious consumers would not be willing to pay a higher price in PWYW context, even if they have higher IRP and altruistic motivation, as paying higher prices would challenge their inherent disposition towards paying lower prices. In other words, price consciousness may not only have a direct negative effect on consumers' WTP (Kim *et al.* 2009) but also negatively moderate the influence of IRP and ALT on WTP, as follows:

- H1: Internal reference price has a stronger (weaker) effect on willingness to pay for consumers with lower (higher) levels of price consciousness.
- H2: Altruism has a stronger (weaker) effect on willingness to pay for consumers with lower (higher) levels of price consciousness.

Interaction between Goal Framing and Social Visibility

Extrinsic goals motivate people to present the self in accordance with popular social norms; whereas intrinsic goals can be undermined when external motives are provided. For example, providing rewards to undertake an intrinsically interesting activity can lead to less enjoyment while performing the activity (Deci, 1971). We propose that goal framing combined with interpersonal relations will influence pricing decisions in the PWYW setting. Specifically, consumers may be motivated by social goals such as image (extrinsic goal) to a greater extent in the company of others (public); whereas when they are alone (private), consumers may be driven by personal goals such as the PWYW experience (intrinsic goal) to a greater extent. Hence,

- H3: Goal framing and social visibility jointly influence willingness to pay, such that a) the impact of extrinsic goals is higher in public (vs. private) setting and b) the impact of intrinsic goals is higher in private (vs. public) setting.

External Reference Price (ERP)

Consumers form their external reference prices (ERP) based on the external stimuli in the purchase environment, such as suggested retail prices or regularly offered prices (Mazumdar and Papatla, 2000). We argue that the interaction between goal framing and social visibility proposed under H3 will no longer hold in such a situation because with ERP consumers have an objective anchor to help them make their pricing decision and no longer be driven by extrinsic factors such as image concerns or intrinsic factors such as the PWYW experience. Moreover, social visibility (private vs. public) will also not matter as consumers have an external anchor on which they can rely in order to arrive at their pricing decision in a more objective manner. Hence,

- H4: The two way interaction between goal framing and social visibility becomes non-significant when external pricing information is provided

METHODOLOGY

In study 1, we test H1 and H2, using a field survey in an ethnic PWYW restaurant setting with 300 participants (40% females, 75% in 19-30 years age-group). We recorded the participants' willingness to pay (WTP) for a meal and measured all other variables. We find that only IRP ($\beta = .58, p < .001$) and two interactions terms PCO X IRP ($\beta = -.23, p < .001$) and PCO X ALT ($\beta = -.09, p < .05$) have significant effects on consumers' WTP, thus supporting H1 and H2, while controlling for social desirability and demographics (age, gender and income).

In study 2, we test H3 and H4, using a 2 (goal framing: intrinsic versus extrinsic) x 2 (social visibility: friends versus alone) between-subjects experiment design in a fitness gym setting with 127 participants (53% female, 91% in 19-30 years age-group) randomly assigned to one of the four conditions. We manipulated goal framing by describing the reason for joining the gym as improve fitness (intrinsic) or look good (extrinsic); and social visibility by being alone or with a group of friends when making the payment for the gym. We also recorded the participants' WTP before and after sharing the external reference price (ERP). We found a significant two way interaction between goal framing and social visibility ($F(1, 95) = 4.14, p < .05$) without ERP, hence H3 is supported. Next, we found that the two way interaction between goal framing and social visibility becomes non-significant ($F(1, 95) = 1.50, p > .05$) with ERP, supporting H4.

DISCUSSION

In this paper, we contribute to the growing literature on PWYW pricing by extending Kim et al.'s (2009) work to confirm that altruism has no direct effect on PWYW prices and showing that its impact is moderated by price consciousness. We also show for the first time that price consciousness moderates the effect of internal reference price on WTP. We also resolve the mixed findings about the influence of social visibility on WTP in PWYW settings by showing that social visibility moderates the influence of consumer goals (intrinsic vs. extrinsic) on their willingness to pay in the PWYW context, which disappears in the presence of ERP. Besides these conceptual contributions, our findings also have important lessons for managers using PWYW pricing on how to handle price conscious consumers and use ERP as a pricing tool.

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