The “Pay What You Want” Pricing Policy: Power Sharing or Communication Action?

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Abstract The academic literature focusing on consumer empowerment has studied the issue of the product (co-creation, co-innovation), the brand (brand community, consumers’ tributes), the communication (lead users) and the consumer work. However, it is surprising to note that little attention has been given to the consumer participation to price setting, and particularly to the “Pay What You Want (PWYW)” pricing mechanism. Although researchers do not examine this issue, a number of enterprises have adopted this new pricing policy.
Recently, several reports and newspaper articles have largely evoked this subject by describing it as innovative and as a marketing tool (remedy to the purchasing power crisis, setting a fair price, regaining customers ...).
The aim of this study is to explore the PWYW mechanism: Is it a communication tool as mentioned by the media or a new participative mechanism which enables power sharing between the enterprise and its customers?
We are interested in the enterprises’ point of view and we hope to identify the reasons which can explain why managers take the risk to decrease

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their profits. The intention of the enterprise is it really to more involve customers in the decision making?

1 Theoretical Framework

The development of the Internet and Web 2.0 has changed the relationship between the company and the consumer (Fuchs et al, 2010). Consequently, managers have adopted the empowerment principles (Prahalad and Ramaswamy, 2000) to offer their customers the opportunity to express their opinions and to participate in the general offer design (Ramani and Kumar, 2008). The mechanism of empowerment requires measures allowing consumers to intervene on several variables of the marketing mix, and companies to use the consumers' skills (Bonnemaizon et al, 2008).

The power asymmetry between the customer and the enterprise is rebalancing, consumers are participating in the decision making (Cova and Ezan, 2008). They are aware that they can influence the enterprise' outcome. Therefore, final decisions become their "own" decisions which generate positive emotions among consumers. These feelings could increase the perceived value of the good and create a stronger involvement of the customer.

Nobody could imagine that the consumer may intervene in the price setting of a good, except in the case of trade negotiations that have always existed between a seller and a customer. Nonetheless, the consumer has participated in this task through several mechanisms such as auctions, the "Name Your Own Price (NYOP)" and the "Pay What You Want (PWYW)". If in the two first cases, the buyer sets the final price, the PWYW mechanism gives to consumer the highest level of power (Kim et al, 2009). While in the NYOP case, the seller sets a threshold below which he refuses the consumer's offer, however in the PWYW case, no threshold is established.

The PWYW pricing policy tends to create a different kind of relationship between the seller and the customer which extends the only commercial and monetary exchange by a social dimension. The commercial relationship can be based on other foundations (responsibility, confidence) than the financial gain. The PWYW presents advantages for the enterprise: differentiate the enterprise from the competition, attract new customers, generate free advertising, increase the notoriety, reduce the price unfairness, explore the customers willingness to pay. Through this mechanism, the enterprise can expect to increase customers’ loyalty and create a positive social image.

Despite this list of advantages, the PWYW is usually associated with an evident risk related to the consumers’ abuse. However, the study of Kim et al (2009) shows that in the PWYW case, consumers are not always motivated by the maximization of their utility. Their behaviors are also guided by social rules and they consider fairness towards the seller.

2 Method and Result

We analyzed forty newspaper articles on the PWYW issue. This primary work enabled us to develop the interview guideline used in the second part of the research. We conducted twelve telephone interviews with heads of organizations that have practiced at least once the PWYW pricing policy. The interview guideline consisted of questions, essentially about the explanation of pricing mechanism principles, the managers’ motivations, the link between the adopted strategy and the propensity to involve the consumer in the organization decisions, the consumers’ behaviors and reactions.

Our results show that the motivations of the managers interviewed are not always participatory or mercantile in nature. The contributions of respondents allowed us to classify them into two groups.

The first group of managers focused on a relational approach which is characterized by sharing and solidarity principles. The PWYW mechanism consists in this case in creating exchange opportunities with customers. It allows more people to access services or products unaffordable for them in normal circumstances. This approach seems to meet the social marketing perspective. The second group perceives the PWYW as an opportunity to talk about enterprises at a low cost of communication, attract new customers or increase sales during some periods.

Managers naively thought that customers would all pay a price close to the usual one. They do not measure the extent of the power they gave to consumers and were perhaps not ready to accept a new form of governance. We observed that some managers had limited the possibilities of consumers in setting prices, which is in contradiction with the PWYW principle. For this, they implemented some specific actions: restrict the operation to a part of the enterprise's activities and intervene at the time of payment.

The enterprise is not the only one to reject this new participative process, the accustomed consumers seem to be reluctant, they feel responsible for the survival of the firm and think they have to pay the usual price. These results underline some customers' resistance toward the PWYW process and point out the importance of loyalty for the price setting process by consumers. This is especially emphasized in the case of restaurant case which is characterized by a strong (face to face) interaction between the consumer and the seller (Kim et al, 2009).

Studies focusing on the issue of customer empowerment highlight the interest in marketing based on customer's knowledge and expertise (Bonnemaizon et al, 2008). In most cases, customer's expertise is challenged by the manager who is scared of a customer who does not pay the right price because of opportunism or incompetence. Price setting in PWYW's field may be a complicated practice for the customer.

The last result shows that although the PWYW concept seems to be profitable for the enterprise (Kim et al, 2009), none of the respondents says clearly that the action was beneficial, most of the managers interviewed express some fears linked to the financial risk. However, we deduced from the discourse analysis that the operation was profitable.

3 Conclusion

The PWYW interest can be double for the enterprise:

1. To get information (how does the consumer perceive the product, what price is he willing to pay, what kind of adjustments can be made...);
2. To create and motivate a new exchange area between the manager and the consumer which favors customers' loyalty.

Promoting positive emotions linked to the price, through the PWYW, could be a solution to reinforce the trust between enterprises and consumers as well as to enhance the seller's credibility. In addition to the customers’ desire to realize a good deal with PWYW, some people seem to appreciate to be involved into an innovative consumption experience.

Our research nevertheless displays some limitations which are important to keep in mind. The first concerns the size of the sample, the study is an exploratory one and its results may not be generalized. Another limitation relates to the respondents’ answers. This study tackles a sensitive issue for managers: the price issue and enterprises profit. It is possible to imagine that some managers did not feel free to answer our questions. Finally, the current study has been limited to the managers’ point of view. We believe it would be fruitful for future research to explore also the consumers’ perception of the PWYW mechanism.

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