Managing Innovation and Diversity in Knowledge Society Through Turbulent Time
25–27 May 2016
Timisoara • Romania
Management, Knowledge and Learning
Joint International Conference 2016
Technology, Innovation and Industrial Management

EFFECTIVENESS OF PWYW – ARE THERE INTERCHANNEL DIFFERENCES?

Ilona Bondos
Maria Curie-Sklodowska University in Lublin, Poland
ilona.bondos@poczta.umcs.lublin.pl

Marcin Lipowski
Maria Curie-Sklodowska University in Lublin, Poland
marcin.lipowski@gmail.com

Abstract:
Article concerns the problem of innovative pricing, the effectiveness of participative price mechanism Pay What You Want is analysed. In the first part a review of the literature on PWYW and multi-channel sales was presented. This part was the theoretical background to the results of the quantitative study, which were presented in the second part. The purpose of the article was the attempt to answer the following research question: Do/how the results of PWYW mechanism differ in the offline and online channel? The study has showed that online PWYW price was lower than the offline PWYW price, and online payments constituted a smaller part of the reference prices (ie. prices paid by the consumer during the last shopping). The main conclusion from the study concerns the diversification of PWYW mechanism effectiveness. Using this participative pricing mechanism on the Internet channel is related to the risk of getting a lower price than price paid in offline channel. Thus, the mechanism PWYW in the online environment requires more vendor's attention.

Keywords: PWYW, participative pricing, innovative pricing, online and offline channel, multichanneling.

1. PRICING MECHANISM IN MULTICHANNEL ENVIRONMENT – THEORETICAL BACKGROUND

1.1. Pay What You Want as a form of participative pricing mechanism

Kim et al. (2009) were the first who has attempted to examine the Pay What You Want (PWYW) mechanism. According to them, PWYW is a participative pricing model in which a buyer's control over the price setting is at a maximum level, the buyer can set any price above or equal to zero, and the seller cannot reject it. Participative pricing, especially because of higher perceived control of the buyers, leads to a greater intent to purchase (Chandran and Morwitz, 2005). In the light of literature there is a clear distinguish between posted price discrimination (i.e.,firms set prices and consumers choose to "take-it-or-leave-it") and participative price discrimination (such as auctions and paywhat-you-want, in which buyers determine prices) (Wu et al., 2012). Importantly, participative price discrimination is more acceptable that consumers is due their control over prices (Haws and Bearden, 2006). PWYW can be considered innovative, in the sense of being unconventional, because they involve consumers in the price-setting process.

Having regard to the consumer's freedom to determine the final price, the essence of zero-pricing strategy should be taken into account (see Shampanier et al. 2007; Palmeira and Srivastava 2013; Chandran and Morwitz, 2006). If so, there is an obvious concern about profitability of PWYW mechanism that allows consumers to receive free products. In light of the literature, the price paid by the buyer under PWYW is significantly different from zero (Riener and Traxler, 2012; Gneezy et al., 2012; Gneezy et al., 2010). Researchers attempted to identify some factors deterring consumers from demanding zero price, there are as follows: customer fairness, satisfaction, loyalty, price awareness, altruism, reference price, social norms (Hilbert and Suessmair, 2015). Another interesting issue indicated by the researchers is a credible threat for buyers for re-using fixed prices by providers (Mak et al., 2010).

In the context of PWYW mechanism effectiveness the perspective of time should be also considered – the question is, how long positive results are visible? In other words, how long the positive effect of novelty take (a new and interesting for consumer price solution)? There are some publications with such a research perspective, inter alia, Riener and Traxler (2012), based on the shop experiment, noted that during the two years after the opening of the restaurant, average PWYW payments declined; however, the decline was only modest. Moreover, the data indicate a stabilization of PWYW payments at a positive level. Other study show that at each of the three following purchase situation, customers indicated a lower price, after the third purchase PWYW payment has reached a stable level (Schons et al., 2014). Another factor determining the PWYW effectiveness is the cost structure - according to Kim et al. (2009), products with high fixed but low variable costs are more appropriate for the application of PWYW because low variable costs limit the risk of prices below costs for the seller. These authors also pointed out a basic truth about the PWYW effectiveness - for high priced products, PWYW does not seem to be an appropriate pricing mechanism, because the incentives to realize a large deal profit may outweigh aspects of fairness and loyalty.

This article is an attempt to identify the impact of another factor - sales channel. Are PWYW payments vary depending on the purchase channel (online and offline)? To the best of authors knowledge, little if any previous research has studied the effects of such a recognition of effect PWYW mechanism effect.

1.2. Multichanneling – creation of the new trade conditions for retailers

The current definition of marketing channel is vital for multi-channel retailers. Neslin et al. (2006) consider channels as customer contact points, or a medium through which the firm and the customer interact. Factors such as enhanced technological capabilities, customer demand, competitive innovation in channel usage, and the promise that a multichannel strategy will help the firm win customers and increase sales and profits have encouraged firms to increasingly rely on multiple channels (Konuş et al., 2014). Referring to definition by Beck and Rygl (2015), multi-channel retailing is the set of activities involved in selling merchandise or services through more than one channel or all widespread channels, whereby the customer cannot trigger channel interaction and/or the retailer does not control channel integration. Hence, a multi-channel retailer sells merchandise or services through more than one channel or all widespread channels, whereby the customer cannot trigger channel interaction and the retailer does not control channel integration. A similar concept but not identical one is channel multiplicity. According to Bruggen et al. (2010, pp. 331-340), it is characterized by at least two specific features. First, customers rely on multiple sources of information, and on multiple sales and support outlets making available the sought after products and related post-purchase services. Product information and its availability are facilitated by third parties other than the manufacturer or traditional channel intermediary. Secondly, customers have an increasing demand for and expectations of trouble-free transitions from information provision to transaction fulfilment to post-purchase service provision, across these multiple channel providers. As Verhoef et al. (2015) note, compared to the multi-channel phase, omni-channel thus involves more channels. An important additional change is that the different channels become blurred as the natural borders between channels begin to disappear. In multichanneling, or better, omnichanneling environment channels are interchangeably and seamlessly used during the search and purchase process and it is difficult or virtually impossible for firms to control this usage. Whereas in the multi-channel phase research shopping gained some attention (Verhoef et al., 2007), in the omnichannel phase showrooming (so-called reverse ROPO) is becoming an important issue. Shoppers now frequently search for information in the store and simultaneously search on their mobile device to get more information about offers and may find more attractive prices. A correct understanding of the idea of multichanneling (aiming ultimately to omnichanneling) is extremely important, as Venkatesan (2007) stated, maintaining multiple channels of transaction with a customer is considered essential for sustained growth in the current competitive environment. Wilson and Daniel (2007) note, that a number of researchers have suggested that in such dynamic environments competitive advantage is transient, rather than sustainable. No longer can managers rely on their extant channel resources – a distribution network, an excellent sales force – that they have assembled to provide their present competitive position. The dynamic nature of channel competition requires them to be able to combine these resources in new ways and to gain additional resources, and to do this repeatedly, if they are to compete successfully.

The rise of the Internet and mobile smartphones has enabled firms to establish and maintain more direct relationships with their customers (Ganesan et al. 2009). On one hand, manufacturer websites provide relevant information about their products and services available for (potential) customers. And on the other hand, customers are frequently interacting with each other through social media platforms and online forums. Neslin and Shankar (2009) have identified 13 key issues in multichannel customer management – one of the areas requiring attention is the pricing, namely: How should a firm coordinate products and prices across channels? Researcher asked two additional and fundamental questions: How to manage differences in prices and products, and how to manage similarities in prices and products? The same conclusion flows from the Polish market - one of the crucial challenge for retailers is pricing issue – unification (across channels) and/or price differentiation (for different customers) and the need to justify the provider's approach to the consumer (Bondos & Lipowski, 2016). Also Leeflang et al (2014) focus on the changes in the retail environment - they have defined 10 digital marketing based tensions on their discussion with marketing scientists and practitioners. One of these tensions is price transparency. According to these authors, it is remarkably that firms so far do not consider the presence of an increasing price transparency as an important challenge. This is surprising, as there is factual evidence illustrating that this price transparency in effect can have very strong consequences for industries. Especially in the current tight economic times, customers feel an even stronger pressure to find a good offer. Sinha (2000) note that the online channel not only arms buyers with much more information about prices, features and quality than they have had in the past, it also reduces the search for that information. Undoubtedly, the most prevalent form of information available on the Internet is about price. Rigby (2011) expressly states that different customers segments will value parts of the shopping experience differently, but all are likely to want perfect integration of the digital and physical channel.

The problem of channel-based price differentiation is crucial, because it affects the price image - differential prices across channels may potentially lead to some negative consequences, such customer confusion, resentment, perceived unfairness, lower satisfaction and loyalty (Lombart, Louis and Labbé-Pinlon, 2016; Vogel and Paul, 2015) as well as channel cannibalization and conflict (Wilson and Daniel, 2007).

2. PWYW IN OFFLINE AND ONLINE CHANNEL – SURVEY RESULTS

2.1. Methodology

The study sample consisted of 220 people and was selected deliberately. The intention was to create a homogenous group in terms of knowledge of the product/service scenario included in the study (buy a cinema ticket). The authors concluded that cinema is sufficiently common pastime for young consumers (20-25 years) to participants were could meaningfully respond to the questions in the form (an important issue was the reference price, which was the ticket price paid by respondent during a recent visit in the cinema). The sample was dominated by women (68.6%), the most represented were households of 3 and 4 people.

Participants in the study had a description of the situation, then fill in the questionnaire. Description of the situation was as follows: *You are at the cinema waiting in the checkout line to buy a ticket for the previously selected movie. Purchase of the ticket, however, is unusual – it is based on the following principles: client can set the price that she/he would like to pay for a ticket. Thus, the client has the freedom to give any price, even zero (free ticket).*
Additional question was: what price will you point out, if you buy a ticket in the online channel?
The questions of the prices (online and offline) accepted by the respondent, as well as reference price had a form of an open question.

By reviewing the literature, it is possible to find many different alternative definitions of the term reference price. Generalizing, reference prices are formed from experience of previous prices either through purchase (i.e. paying the price) or observation (Bruno et al., 2012). In other words reference prices are standards against which the purchase price of a product is judged. According to Jin et al. (2014) the perception of fairness is an inevitable consequence of comparison. When evaluating prices, customers use different comparative references, including another person, a class of people, an organization, or themselves in relation to their own experiences from an earlier point in time.

In this study, the reference price was defined as the price paid by the consumer during a last visit at the cinema.

2.2. Research results

Based on data analysis following issues have been formulated:

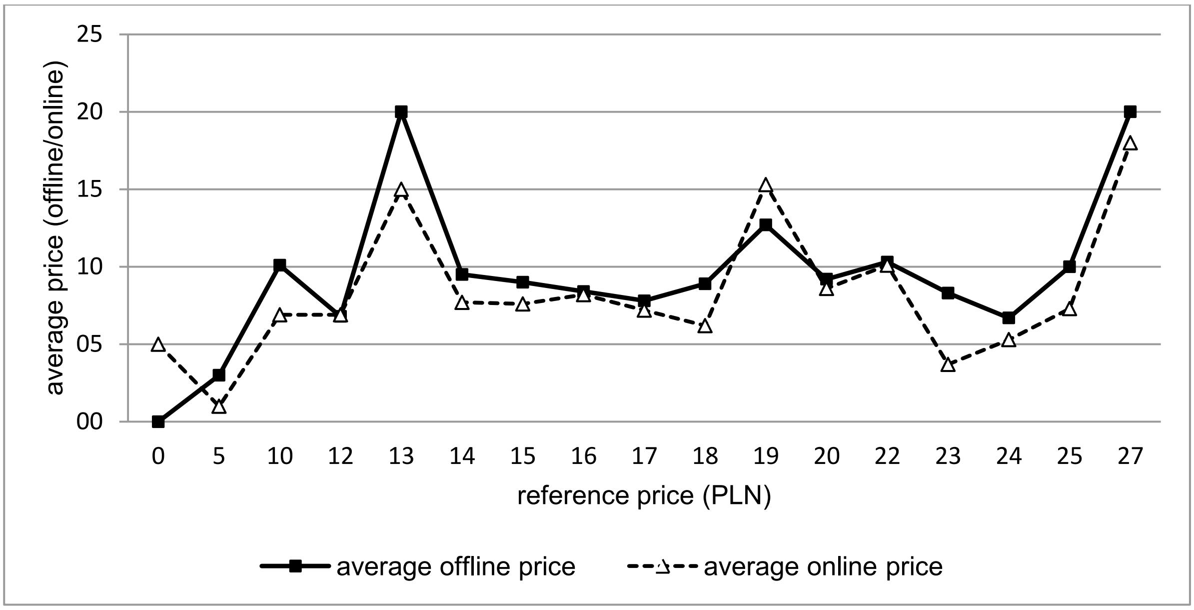
- offline PWYW payments were significantly significant different from zero (*$p<0,01$), 2,7% of the respondents made zero offline payments,*
- *online PWYW payments were significantly significant different from zero ($p<0,01$), 3,6% of the respondents made zero online payments,*
- *the average offline PWYW payment was 8,9 PLN[1],*
- *the average online PWYW payment was 7,9 PLN,*
- difference between average online and offline price was significantly significant ($p<0,01$).

It is significant that almost at each indicated level of reference price online payment was lower than the offline payment (picture 1).

Confirmation advantage over offline payments online payments is also set their quotas as part of the price of reference (picture 2). A kind of dependency is visible – as long as the ratio of payments compared to the reference price is low (up to 0.6), the percentage of respondents was relatively high. There is also evidence that even with the most common payment with respect to a reference price (0,5), online payments were rarely indicated (the online payment constitutes a smaller part of the reference price was often indicated by respondents).

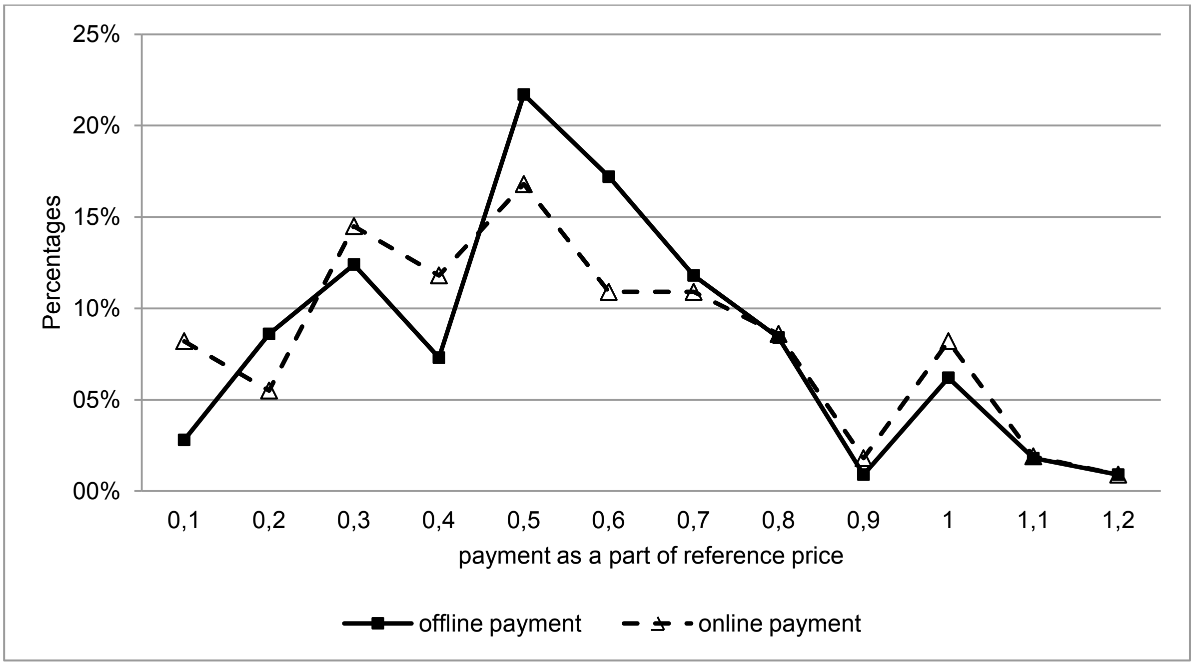
Picture 1: Average online/offline payments and reference price

[1] 1 EUR = 4,2448 PLN, http://www.nbp.pl/homen.aspx?f=/srodeken.htm, access: December 28th, 2015.



Source: own research.

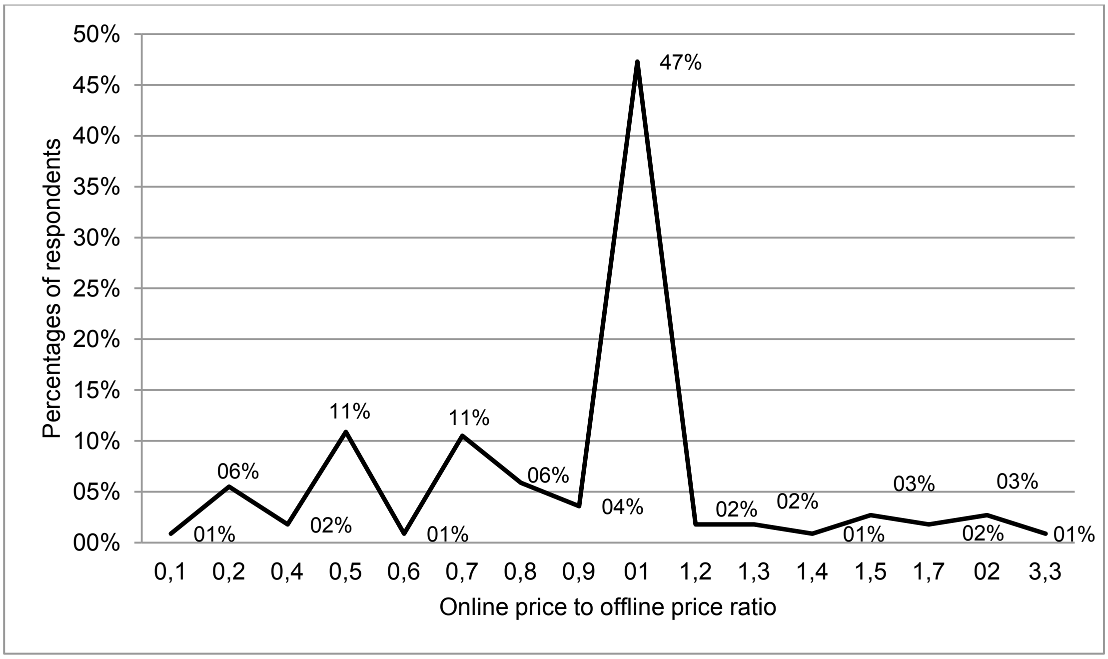
Picture 2: Online anf offline payments as a part of reference price



Source: own research.

And finally the relationship between online payments and offline payments (picture 3). It is easy to notice that only in the case of almost 13% of valuations, the price for the purchase in the online channel was higher than the offline channel price.

Picture 3: Online payment as a part of offline payment



Source: own research.

With a large variation of the payment offline (from zero to 20) it is understood that the online price was equal to the offline price in many cases. But also often payment in online channel accounted for only part of this price which was indicated during a direct interaction with the seller.

3. FINDINGS AND DISCUSSION

3.1. Conclusion and practical implications

The main conclusion from the study concerns the diversification of PWYW mechanism effectiveness. Using this participative pricing mechanism on the Internet channel is related to the risk of getting a lower price than price paid voluntarily by consumers in offline channel. The reasons for this state of things may be different. According to the authors the main incentive for the buyer to demand a lower price during shopping online is the lack of direct contact with the seller. Not having to talk with the bidder, the consumer has greater courage to pay a lower price than in direct confrontation. Stationary shop creates a much better environment to create a relationship between seller and buyer. In effect, the purchaser may feel bound to be have more honest approach during price setting. The differences in the effects PWYW in the offline and online channel can also result from the general conviction of consumers about a lower price appearing in the online environment.

The above request is related to one of the characteristics of marketing channels, namely the media richness. It refers to a medium's ability to convey certain types of information and is determined by its capacity for immediate feedback, the multiple cues and senses involved, language variety, and personalization (Brunelle, 2009). According to the authors eliminating certain elements determining the information richness of online channel, may limit the effectiveness of the PWYW mechanism.

The second issue arising from the study is the definition of the effectiveness of the PWYW mechanism. In financial terms, there should be distinction between two situations - a non-zero price and the price that ensure the supplier survival on the market. The survey results show that the first dimension of effectiveness is met, but the second issue needs much more attention - especially in the case of multi-channel sales.

It seems possible to formulate some interesting practical implications for multi-channel retailers. First, it is recommended to prudent implementation PWYW mechanism in channels other than offline. Perhaps one solution would be to filter the consumers entitled to self-determination paid the price - eg. to implement a loyalty program that allows use of PWYW only by selected buyers. Second, it is worth remembering the so-called effect of novelty - the smaller consumer's' habit (even boredom) to the principles of this mechanism, the better the effects PWYW are. Thus, if in a given industry practice of engaging the buyer in pricing has not yet been implemented, a particular company may want to reach for such a solution and take advantage of it.

3.2. Further research and limitations

Undoubtedly, taking into consideration the cost-effectiveness of price mechanism PWYW, it should be examined its long-term impact on the seller's financial condition. As the only positive image does not provide to survival in a competitive market, if determined by the customer price does not ensure the seller's stable development. The long-term profitability of such a pricing strategy might be examined in more detail, using longitudinal customer data from a multichannel company.

This study has some limitations. Main one relates the research sample – arguably it is not a reflection of the total population, but only a certain customer segment. The second issue concerns applied research method - a method based on a scenario creates a king of an artificial purchasing situation. Third, presented findings should be verified on other categories of services as well as products.

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