“Pay What You Want”: A Participative Price Setting Mechanism

Carmen Balan
The Bucharest University of Economic Studies
carmen.balan@mk.ase.ro

Abstract. Traditionally, price is a major component of the marketing mix of companies, irrespective of their industry. Price used to be set by suppliers. In contrast, new approaches are visible in the practice of several companies: respectively customers take the initiative of price setting. The present paper aims to explore the pricing mechanism “Pay What You Want” that is focused on customers. The main objectives of the paper refer to the identification of: (i) specific features of this pricing approach; (ii) positive outcomes for companies and customers; (iii) challenges raised for economic operators and buyers; (iv) cases of companies from the international markets that applied such methods. The paper makes specific and detailed recommendations relative to the implementation of the “Pay What You Want” pricing mechanism that is based on the direct participation of customers.

Key words: marketing, pricing, pay what you want, participative mechanism.
JEL classification: M30, M31.

1 Introduction

The price is major component of the marketing mix. Both on the business and consumer markets, price is a factor that influences the competitiveness of each company in correlation with the “package” of benefits provided to customers. Compared to the other marketing mix components, price seems to be less likely an area of innovation. However, practitioners experiment new pricing methods in an attempt to capture the attention of customers and forge new relationships with them. “Pay what you want” (PWYW) is an example of innovative mechanism that is presently applied internationally in several sectors. This article explores the specific features of the method, the positive outcomes, as well as the challenges associated. Several case studies are presented to highlight the potential of the PWYW mechanism.

2 Price setting: an overview

The practice and theory of marketing management underlines three main factors that must be considered when setting prices. These factors are the customer demand, the costs of the company and the prices of direct and indirect competitors acting on the same target market.

In a free market environment, without any legal or administrative restrictions, companies may set the price levels they consider the most appropriate. Nevertheless, all their choices are made within a specific interval defined by a “ceiling” and a “floor”. There are two extreme boundaries in price setting (Smith, 2012). The former consists in the marginal costs and define the lower extreme boundary. The latter is the product utility for the customer and represents the upper extreme boundary. In accordance with the positioning and differentiation strategy of the company, the price will be set above, below or within the range of prices that are applied by competitors to comparable goods and services.

McKinsey experts state that setting prices for goods and services is “one of the most fundamental management disciplines” (Baker et al., 2010, p.3). Traditionally, price setting is a process that consists in several steps (Kotler and Keller, 2012). The sequence is the following:

a) defining the pricing objective. Depending on the market status and on the corporate objectives, the company may set objectives such as: maximum current profit, maximum market share, market skimming, quality/price leadership, maximum market penetration, survival under tough market conditions, etc.
conditions etc. A company that is present on several market segments with different product brands will pursue the most convenient objective in each segment. However, experts advise companies to maximize profitability over long term (Nagle et al, 2011). Thus, trade-offs are necessary between the margin and the market share.

b) identifying the price elasticity of demand.
The demand volume varies with price. Different price levels generate different levels of demand in the market. Thus, the company must estimate demand curves and the price elasticity of demand.

c) estimating costs. The total costs should be considered in the price setting process. The fixed and variable costs must be identified. Without a detailed monitoring of costs and of the willingness to pay of the target customers, the company runs the risk of becoming unprofitable. Thus, target costing may be a tool to mitigate such risks.

d) analysing the pricing policies of competitors. Besides own costs and customer demand, the company must study on continuous basis the prices of competitors. Nevertheless, replicating the prices of competitors is not always a viable option. The corporate objectives, the positioning strategy and the pricing objectives should be taken into consideration because competing companies differ from this perspective.

e) selecting the pricing method. The range of pricing methods includes three categories according to the type of major factor on which each method is focused. Firstly, examples of cost-driven methods are mark-up pricing and target-return pricing. Secondly, customer-driven methods are the perceived value pricing and the value pricing. Ultimately, a third category of methods includes those oriented towards competitors, such as competitive pricing and auction pricing.

f) setting the final price. In order to set the price level, besides the main three factors that have been presented, the company considers additional factors related to the company and to the target market. The final price set by a company for a good/service reflects the impact of multiple factors. In competitive markets, practitioners cannot afford to rely only on one factor, being it company’s costs, customer demand or competitors’ policies.

At present, experts draw the attention on price management, highlighting that price setting is only one part on the managerial process. The new information technologies provide companies with tremendous volumes of data relative to pricing. Specialists state that a holistic approach to pricing is necessary (Meehan et al, 2011). Effective price management is possible only when price setting and price execution are sustainably integrated in the organisation. Another trend relative to pricing is the focus on the value provided to customers. Marketers have to see the price as integral part of the value proposition provided by the company to customers. A customer-driven perspective is a must in a competitive marketplace.

3 The new pricing approach: PWYW

Worldwide, companies started to experiment new pricing methods. A new trend consists in the participative pricing mechanisms. Relevant examples of participative approaches are: “name your own price”, “pay what you want” (PWYW) and online auctions.

3.1 The PWYW mechanism

The evolution of marketing thought and practice is a sequence of several eras, each focused on a specific pillar. The eras of production and product orientation were followed by periods focused on sales and respectively on market. Today, practitioners and academics realize that a new era evolves. More specifically, companies discovered the need for and the importance of interaction (Ramani and Kumar, 2008). The chance to achieve high performance
levels is intertwined with the interaction orientation. Thus, marketing activities are managed with the customer rather than for the customer.

Experts acknowledge the existence of a new pricing mechanism based on which buyers pay according to their needs, not to the needs of the vendors. The Internet transactions and auctions have accelerated this trend.

Traditionally, in the relationships between buyers and sellers, the vendor was the price “maker” and the consumer was the price “taker”. At present, the managers of the companies become price takers within the context of participative pricing mechanisms (Prahalad and Ramaswamy, 2000).

The innovation brought by the participative pricing mechanisms such as PWYW consists in the involvement of consumers in price setting. Consumers are empowered to decide in an area that was formerly dominated by vendors.

In 2009, Kim, Natter and Spann defined the “pay what you want” method as follows: “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.”.

In essence, the PWYW mechanism has the following main features:

a) no set prices. The transaction between seller and buyer is not based on a price set by vendor. The price is set by the buyer. This is the distinctive characteristic compared to other pricing methods.

b) empowered customer. The authority of price setting is transferred from the seller to the buyer.

c) no fixed price. Different customers pay different prices, according to their willingness to pay.

Research identified that fairness, satisfaction and income are positive drivers of the prices paid. On the opposite, the price consciousness exerts a negative influence on the price paid by customers (Kim et al, 2009).

Exploratory research done in 70 companies worldwide led to the conclusion that innovation in pricing may be the company’s most powerful source of competitive advantage (Hinterhuber and Liozu, 2014). As a participative mechanism, PWYW is a possible innovation strategy in pricing.

The participative pricing methods show that exchange relationships between buyers and sellers may have other basis than financial profit, respectively new bases such as responsibility and trust (Dekhili and Connnan-Ghesquiere, 2013). The PWYW allows a social and relational perspective of the exchanges between buyers and sellers.

As a new participative pricing mechanism, PWYW differs significantly from the traditional pricing methods. The difference consists not only in the way prices are set (by the buyer, not by the vendor), but also in the specific objectives accomplished by the vendor. The profitability objectives loose the primary importance. Objectives of social and promotional type come in the forefront.

3.2 Is PWYW relevant to buyers and sellers?

The question mentioned above aims to clarify if buyers and sellers could be interested in this pricing mechanism. In other words, it is important for the sellers to correctly evaluate the impact of PWYW on their business results and on buyers, before deciding to apply this innovative method. Therefore the positive outcomes and challenges of the PWYW mechanism must be explored from the two-fold perspective of sellers and buyers. Table 1 presents a synoptic view of the impact.

Table 1 – The impact of PWYW method on buyers and sellers

<table>
<thead>
<tr>
<th>Positive outcomes</th>
<th>For buyers</th>
<th>For sellers</th>
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<tr>
<td></td>
<td>perception of control</td>
<td>differentiation from competition</td>
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<tr>
<td></td>
<td>happiness generated by giving</td>
<td>willingness of loyal customers to pay higher</td>
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signalling of social identity through costly prosocial behaviour
prices
• free word-of-mouth promotion
• social image

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<tr>
<th>Challenges</th>
<th>For buyers</th>
<th>For sellers</th>
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<tr>
<td>“cheap” image</td>
<td>• risk that buyers pay nothing</td>
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<td></td>
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<td>• gap between the attitude and the behaviour of consumers</td>
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<td></td>
<td>• unequal treatment of customers</td>
<td>• no possibility to reject the price paid</td>
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<td></td>
<td></td>
<td>• no profitability</td>
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<td></td>
<td></td>
<td>• potential erosion of the corporate image</td>
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From the buyers’ perspective, the major positive outcomes are the following:

a) **perception of control.** Customers tend to prefer the participative method over the classic ones because they feel they have the control over the shopping situation (Chandran and Morwitz, 2005). In the case of the PWYW method, instead of a fixed price set by the vendor, individual buyers prefer to be the ones who decide the price level.

b) **happiness generated by giving.** A potential favourable result of paying what they want would be the feeling of happiness of individual. The PWYW method must be analysed from the perspective of research done in the field of economics and psychology. In 2008, the research of Liu and Aaker underlined the happiness of giving (Liu and Aaker, 2008). The findings of three laboratory and field experiments showed that asking individuals to think about “how much time they would like to donate” versus “how much money they would like to donate” to a charity increases the amount that they ultimately donate to the charity.

c) **signalling of social identity.** Based on laboratory and field experiments, a group of American researchers found that costly prosocial behaviours signal social identity and that people behave in accordance with that self-perception (Gneezy et al., 2012). Consequently, if individuals want to positively signal their identity, they would pay higher prices.

Individual buyers may face several challenges when sellers apply the PWYW method:

a) **“cheap” image.** The buyers will probably resist the temptation to pay zero prices in front of other people – especially of their friends – in order to avoid projecting a “cheap” image of themselves.

b) **loosing the source of purchases.** If too many buyers pay a price below the cost of the seller, the loyal customers incur the risk of losing their source of supply because the business is not sustainable.

c) **unequal treatment of customers.** In the case of the PWYW method, customers decide themselves the price they pay. The amount paid may be equal to, higher or lower than the price for similar goods/services. The buyers may even choose the zero price. Consequently, some customers may consider unfair the differential treatment of the buyers, because for the same goods/services, they are allowed to pay different prices.

The companies that apply to the PWYW mechanism enjoy the following positive outcomes:

a) **differentiation from competition.** The companies that apply the PWYW method may be perceived as innovative. Thus, they differentiate themselves from competitors on the target market.

b) **willingness of loyal customers to pay higher prices.** Research revealed that prices paid by customers may be influenced by the level of buyer loyalty (Kim et al, 2009).

c) **free word-of-mouth promotion.** The customers delighted by the good value received for a good or service sold within the PWYW context will communicate
others about their positive experience. Thus, new potential customers may be attracted by the same value proposition of the seller.

d) social image. The application of the PWYW method may bring additional intangible benefits to the company. A positive social image may be developed. The company may attract segments of customers that could not have access to the specific offering in a market environment where the prices set by vendors are too high compared to the purchasing power of those specific buyers. Significant challenges may become a barrier for the application of the PWYW mechanism by the selling companies:

a) risk that buyers pay nothing. Researchers studied the reaction of consumers to the zero price (Shampanier et al., 2007). Findings revealed that zero price has a special role in consumers’ cost-benefit analysis. For consumers, zero pricing not only decreases cost, but also adds benefits. Experiments showed that buyers tend to choose to pay nothing for a product, even if a more valuable product is available for an extremely low price (such as 10 cents). In the case of the PWYW method, there may be customers who will choose to have the good or service for free.

b) gap between the attitude and the behaviour of consumers. There is research evidence that differences exist between the behaviour and attitude of consumers (Carrigan and Attalla, 2001). When stating their opinions, consumers tend to conform to socially-approved purchasing decisions, but actually they rarely make themselves such decisions in practice.

c) no possibility to reject the price paid. Other participative pricing methods - such as “Name Your Own Price” (NYOP) - allow sellers to reject the price suggested by the buyer (Spann and Tellis, 2006). In the case of PWYW, the seller cannot reject the price paid by the customer. In principle, the vendor does not indicate the lower limit of its threshold price representing the marginal cost of the product.

d) no profitability. The participative pricing methods may generate the challenge of insufficient resources to cover the costs entailed by the production and/or distribution of goods/services. In the case of participative pricing methods (not only of PWYW), the profitability depends on the number of customers willing to pay a price that is higher than the level required to ensure the continuity of the business (Hinz et al, 2011).

e) potential erosion of the corporate image. The application of the PWYW method may generate some negative connotations in the minds of potential customers. Some unfavourable associations could be the following: “method used in times of crisis”, “a corporate brand that targets people facing financial difficulties” and “not a strong brand, but a weak and dwindling brand”.

The above mentioned aspects show that PWYW is a mechanism relevant to both buyers and sellers. Even if the method generates challenges besides positive outcomes, its use attracts the attention of buyers and supports either the promotional or the social efforts of the seller.

4 Application of the PWYW mechanism: case studies

The PWYW method is applied by organizations from various fields of activity, especially in the service sector. The name of the method varies by company and by country: “pay as you wish”, “pay as you like” or “pay as you please”. Hereinafter, several representative case studies are highlighted.

4.1 Online environment

One of the successful cases of PWYW application is Radiohead, an English rock band founded in 1985 in Abingdon, Oxfordshire. The example is illustrative for the use of the PWYW method in the online environment. Starting on 1 October 2007, the band applied the PWYW scheme for their seventh album “In
Rainbows”. The album was presented on the own site of the rock band.

For the first time in the musical environment, a band decided to let fans choose what price they wanted to pay. The managers of the band assumed the risk of customers who could download freely the music paying anything. According to the data released by ComScore, during the first 29 days of October 2007, a total number of 1.2 million people visited the site. The average price paid worldwide was $6 and the average price paid in USA was $8 (Stillman, 2007).

Only 38% of the fans who downloaded the album have actually paid for it, the rest of 62% did not pay anything (Schnuer, 2012). Data resulted from the monitoring of the site showed that 17% of the downloa
ders paid $4 or less, 6% paid between $4.01 and $8, 12% paid between $8.01 and $12 and 4% more than $12 (Hau, 2007).

At first glance the figures presented above seem slightly unfavourable. In fact, the members of the rock band made statements about the fact that data do not fully reflect the actual results. These numbers showed only the situation of downloads from the “In Rainbows” Web site. The band sold the album and registered higher sales compared to the previous two albums (Michaels, 2008). Before the launch of the album “In Rainbows” in the stores, the online sales generated more than what Radiohead obtained for the previous album, all formats combined.

According to Warner Chappell - the publisher of the “In Rainbows” album – during the first year from the launch, Radiohead sold three million copies, under the form of CDs, box sets and online downloads. Out of the mentioned number, 100 thousand purchases were disc boxes at a unit price of £40.

The experiment of Radiohead in the musical sector leads to the conclusion that PWYW is not necessarily a major revenue generator in the online environment. The most important contribution of the PWYW mechanism consisted in the huge word-of-mouth generated among fans and within the entire musical industry. The PWYW method was a communication tool rather than a pricing instrument. The rumour created in the online and offline environment facilitated a significant level of sales.

4.2 Restaurant sector

Panera Bread is an example of company which applies the PWYW method. The company is focused on the bakery business, delivering fresh, authentic artisan bread. It was the first restaurant chain to implement PWYW. On 30 April 2014, Panera Bread had a chain of 1,800 bakery-cafes in 45 states of the USA and in Ontario Canada (Panera Bread, 2014). The company has a portfolio of store brands: Panera Bread®, Saint Louis Bread Co.®, and Paradise Bakery & Café®.

In 2010, the company started a PWYW experiment in some of its locations (Van Beeren, 2012). For example, in St. Louis - the city of origin of the company – a former Panera-owned restaurant was converted into a non-profit restaurant under the name “Saint Louis Bread Company Cares Café” (Horovitz, 2010). The restaurant is open seven days per week. The PWYW approach is indicated by the following message placed on a sign at the entrance: “Take what you need, leave your fair share.”.

Even if the PWYW method implies that customers have total control over the price paid, Panera Bread decided to communicate a reference price to the customers of the non-profit restaurant. The cashier gives each customer a receipt which specifies the cost of the products ordered in a conventional Panera restaurant. The customers pay the price they want either by placing the cash amount in the special donation boxes or by using their credit cards at cashiers.

The financial results of the PWYW mechanism for Panera Bread are not disappointing. More precisely, up to 20 % of customers are willing to pay more than the suggest price of food, 20 % pay less or nothing at all and 60% pay the recommended donation. The statments made by Ron Shaich, the founder and CEO of the chain,
reveal that a non-profit store makes 70-80% of the sales generated by a for-profit store (Symanowitz, 2013).

Since March 2013, 48 for-profit Panera cafes sold the item turkey chili according to the PWYW mechanism (Symanowitz, 2013). Based on its previous PWYW experience in five non-profit locations, the company extended the application of this participative pricing method to one item of the menu offered in its for-profit cafes.

The example of the Panera Bread company shows that PWYW is applicable when the organization decides to develop social projects and to help those customer who are not able to pay the full price. At the same time, the PWYW method is a sales promotion tool in the profit-oriented stores.

4.3 Advertising services

The PWYW mechanism is applied by an innovative company headquartered in Poland. The organization is 8k, an interactive design and branding company.

On its site, the company underlines its leading position as “the first agency in the world where you pay for the design what you think it is worth” or “probably the first interactive agency in the world to introduce PWYW” (8k, 2014). On its site, the company enumerates three reasons for its decision to apply the PWYW method. The reasons are the following:

1) curiosity to find out how customers value the work of the agency without the pressure of a predetermined price list;

2) the freedom of the agency to do the best it can;

3) exploiting the opportunity to do something the first and to follow the latest trends.

The name of the company is very likely linked to the eight rules customers must follow. According to the second rule, customers must explain why they decided to pay the specific amount either $1 or a five-digit amount.

Under the PWYW system, the company 8k provides specialized advertising services consisting in the creation of logos, names, business card design, letterhead design, slogans, and sales offer letters. Nevertheless, the range of services supplied by 8k is more diverse than the list of services at PWYW prices. Creative services, online promotion and Web services are integral parts of the service portfolio of the company.

Until 28 July 2014, the company accomplished 94 projects in the PWYW system. The average payment for one design was $164 (8k, 2014).

The practice of the company 8k underlines the option to apply the PWYW mechanism only for some of the services from the portfolio provided. In addition, the invitation addressed to customers to explain the reasons for the actual amount paid may help the company in its endeavours to improve the value offered to clients.

Another example is the Amsterdam-based Buutvrij For Life, an advertising company that captured the attention of marketers by means of a project built on the PWYW mechanism.

The project was called “40 Days Fast”. In essence, the company initiated a limited-time promotional offering. Every company in search for new and creative advertising ideas was invited to contact the agency Buutvrij For Life. The ideas could be available for free and the promotion lasted only 40 days.

As stated by the representatives of the advertising agency, the results of the project were very favourable (AdNews, 2014). The PWYW mechanism combined with creative ideas led to the following outcomes:

- 152 new projects for clients;
- outstanding new accounts such as: Tony’s Chocoloney, Red Bull, Oxfam and the Belgian Olympic speed skating team;
- 70% growth achieved in a period of difficult economic situation and tough competition;
- an audience of one million people reached with free publicity in local media (TV, radio), on blogs and in social media;
- free publicity equivalent to an investment of €300,000;
- trust of customers in the value of creativity.

The examples presented prove the applicability of the PWYW mechanism in the restaurant
sector, for the sales on the Internet and for the advertising services. Numerous examples exist in various other sectors. For instance, PWYW is applied in the cultural sector by institutions such as theatres and museums.

5 Conclusions and recommendations

PWYW is a participative method of price setting that empowers customers to choose the price level they pay for a specific good or service. The companies become price takers in their relationships with the customers.

From the buyers’ perspective, the positive outcomes of this method are the following: perception of control, happiness generated by giving, signalling of social identity through costly prosocial behaviour. The challenges for customers are: “cheap” image, loosing the source of purchases and unequal treatment of customers.

From the perspective of the selling companies, the PWYW method has positive outcomes such as: differentiation from competition, willingness of loyal customers to pay higher prices, free word-of-mouth promotion, social image. The potential downsides are the following: risk that buyers pay nothing, gap between the attitude and the behaviour of consumers, no possibility to reject the price paid, no profitability, potential erosion of the corporate image.

The worldwide market provides relatively numerous examples of companies and organizations which apply the PWYW method. Restaurant chains, rock bands, hotels, advertising agencies and cultural institutions are some examples which highlight the application of the method.

The PWYW mechanism cannot be recommended to every seller, for all the types of products or services. The features of the PWYW method and its impact on buyers and sellers limit the application to clearly specified circumstances.

The main answers to the question “In what cases companies could apply the PWYW mechanism?” are presented in the table 2.

Table 2 – In what cases companies could apply the PWYW mechanism?

<table>
<thead>
<tr>
<th>Recommended for</th>
<th>Not recommended for</th>
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<tbody>
<tr>
<td>goods/services with relatively high fixed costs and low variable costs</td>
<td>goods/services with high costs</td>
</tr>
<tr>
<td>one or several components of the portfolio of goods/services</td>
<td>corporations that have to accomplish ambitious profit objectives</td>
</tr>
<tr>
<td>face-to-face transactions rather than online transactions</td>
<td>companies aiming at high profits in the online environment</td>
</tr>
<tr>
<td>promotional campaigns within a short time interval</td>
<td>companies that have to meet the predictability expectations of shareholders</td>
</tr>
<tr>
<td>corporate social responsibility projects</td>
<td>companies that developed strong brands with high equity</td>
</tr>
<tr>
<td>companies that need to identify new pathways to innovation</td>
<td>luxury brands</td>
</tr>
<tr>
<td>identifying the price that customers are willing to pay for a new product</td>
<td>application on continuous bases for all the product portfolio of an organization</td>
</tr>
<tr>
<td>non-profit organizations</td>
<td>use by companies without signalling the reference price to customers</td>
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</table>

The application of the PWYW mechanism could be recommended in the following cases:

a) goods/services with relatively high fixed costs and low variable costs. Attracting an increasing number of customers does not turn into a disadvantage for companies that apply the PWYW method for products with high fixed costs and low variable costs. The addition of a new customer to the company portfolio leads to a relative decrease in the fixed costs per product unit and entails a relative low increase in the total variable costs. In principle, the expansion of such a business could have favourable results for the company.
b) one or several components of the portfolio of goods/services. Companies do not need to apply the PWYW method for the entire product portfolio. A positive impact on customers may be generated by the application of the method for only one item or a limited number of goods/services. In addition, an option could be the combined approach. Companies could provide a major good/service at full price (set on the basis of traditional methods) bundled with a service/good for which customers pay the price they wish.

c) face-to-face transactions rather than online transactions. In direct face-to-face transactions, buyers tend to keep a favourable personal image. In a social setting, buyers will avoid the “cheap” image stemming from paying a price lower than the seller cost or paying nothing. When there is an ongoing commercial relationship between buyer and seller, the purchaser will generally refrain from unbalanced transactions, considering that mutual benefits are necessary for the relationship to continue. In case of face-to-face communication, an emotional involvement of the buyer will occur more likely than in the online environment. In addition, on the Internet, people often expect to access value without payment.

d) promotional campaigns within a short time interval. The PWYW method has a strong impact on customers because it provides control over price and economic benefits. While profits cannot be warranted when PWYW is implemented, companies may exploit the favourable outcomes of the method in terms of marketing communication. By means of the PWYW method, companies can achieve communication objectives such as: (i) to create awareness for a new product brand added to the portfolio of an existing company; (ii) to build market awareness for the corporate brand of a small company; (iii) to enhance the image of a product or corporate brand by associating it with marketing innovation; (iv) to generate an increase in sales volume on short term; (v) to stimulate positive word-of-mouth through an unconventional promotion tool; (vi) to differentiate from competitors highlighting a corporate social responsibility image; (vii) to decrease the investment in communication while obtaining positive results etc.

e) corporate social responsibility projects. The essence of the PWYW method transforms it in an adequate marketing tool to achieve social responsibility objectives. Companies could provide support to individuals and communities that face financial difficulties. The method could be used to ensure access to the own goods and services of the companies or to goods and services provided by other partner organizations.

f) companies that need to identify new pathways to innovation. Most often, innovation takes place in the product area of the marketing mix. Practice showed that pricing was rarely the stage for innovation. With the advent of the Internet marketing, pricing got a new dimension consisting in the participative approach. However, few companies applied the PWYW method. Consequently, companies that experiment with positive results this mechanism can develop an image of innovative organizations and differentiate from competitors.

g) identifying the price that customers are willing to pay for a new product. The PWYW method can be considered when companies, especially the small ones, do not have market experience and do not know what price to set for a new product. This participative pricing method is a way to test the willingness to pay of the target customers. Nevertheless, the results of such “tests” should be analysed carefully. Companies should be aware that in the absence of an emotional involvement of customers with the brand, the buyers are tempted to pay the lowest possible prices.
h) non-profit organisations. In the case of museums, theatres and other non-profit organizations, PWYW is a method that facilitates the access of a large number of persons to social and cultural activities. In order to be able to apply the PWYW method, the financial support from public authorities or from donors is a must. The application of the method may be limited to the some of the services provided or to a limited time span.

The PWYW method is not recommendable for:

a) goods/services with high costs. The method is not recommended to sellers of goods/services with high costs because the vendor runs the potential risk of not recovering the cost. The continuity of the business is hampered by such mechanism.

b) corporations that have to accomplish ambitious profit objectives. The organizations that intend to apply the PWYW method must take into consideration the risks of not making any profit and even of not covering their costs. If customers are not willing to pay a price that allows cost recovery, the vendor may run the risk of closing the business down. Thus, high profits could be the uncertain exception not the rule when applying the PWYW method.

c) companies aiming at high profits in the online environment. The PWYW method applied in the Internet environment may results in high numbers of interested fans, increased awareness, and enhanced “word-of-mouse”. However, downsides are present. On the Internet, people are accustomed with many free/unpaid benefits consisting in goods, services, information etc. There are also very frequent “illegally free” downloads of intangibles that have a price different than zero to be paid online (e.g. for music, films etc.). Developing an online business based on the PWYW mechanism will less likely lead to high profits.

d) companies that have to meet the predictability expectations of shareholders.

The medium and large companies, especially those listed on the stock exchange, have to provide shareholders fair estimates of their future evolution. In such companies, the corporate, divisional, functional and brand plans are indispensable managerial tools. Objectives must be clearly specified in a rather quantifiable manner. The financial objectives and estimates correlated with appropriate strategies and programs are an integral part of the plan. The PWYW mechanism does not provide a clear perspective of the sales, cash flow and profits. Such companies could be less inclined to experiment the consequences of the PWYW method.

e) companies that developed strong brands with high equity. The brands that accumulated high value due to sustained marketing efforts must pay attention to the possible unfavourable connotations generated by the PWYW in the minds of customers. The method may lead to an association of the brand with: (i) period of crisis; (ii) segment of customers facing financial difficulties; (iii) futile marketing ploy; (iv) dwindling company. Brand equity is an intangible asset that takes time to develop and may be easily eroded or lost. The bad choice of the pricing method may harm the value of the brand.

f) luxury brands. Companies on the luxury market set prices based on the “perceived value” pricing method. According to this method, highly-perceived brands have important value for buyers and are entitled to be expensive. The target customers for the luxury brands consider that high prices are necessary and acceptable because such brands convey a message about life style and personal status. The PWYW mechanism is not recommended. Firstly, PWYW erodes the image of exclusivity, making the product available to the mainstream market. Secondly, there is the risk of unavailable financial resources to ensure the development of brand value in the market. Thirdly, PWYW does not guarantee the
maintenance of profits when the targeting strategy switches from a concentrated strategy to a mass-market strategy.

g) application on continuous bases for all the product portfolio of an organization. The companies which apply the PWYW mechanism should be aware of the risk of no profitability. While PWYW could be recommended to fulfil promotional objectives on short term, the decision to permanently use the method must be made with caution by managers. In addition, companies owning a portfolio of products in various stages of evolution on their markets cannot afford to implement PWYW permanently for all products like “question marks”, “stars”, “cash cows” or “dogs”. For instance, the PWYW mechanism may not provide the necessary resources to develop the “star” products. In the case of “cash cows”, the PWYW could erode the cash potential which is of utmost importance to financially support other products such as the launch of “question mark” products or the communication and distribution of the “star” products.

h) use by companies without signalling the reference price to customers. Under the PWYW framework, customers have the right to pay even a zero price. In order to ensure the sustainability of the business, the company can communicate to the customer a reference price under the form of a “market price” or “current price in other outlets of the company that do not apply the PWYW system”. The willingness to pay a price is influenced by the customer knowledge of the value and price of the good/service. Signalling the “reference” price may increase the likelihood that customers pay a price closer to the level that allows the vendor to continue its activity. This approach can contribute to positive results for both parties in the exchange.

Between positive outcomes and downsides, the PWYW mechanism remains a pathway to promote innovation in pricing. The method may be used by companies as a tool to improve the relationships with customers, to enhance the brand and corporate image and to differentiate from competitors. The caveat relative to the potential financial risks incurred by the method should also be taken into account.

References


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Author description

Professor Carmen Balan Ph.D. is member of the Marketing Department of the Faculty of Marketing within the Bucharest University of Economic Studies. Her research activities focus on major fields such as marketing and marketing management. She has a significant experience in teaching marketing topics in bachelor and master programs. Carmen Balan also coordinates research activities of doctoral students. She published tens of articles and more than 20 books, either in Romania or abroad.