

An Examination of Pay-What-You-Want as a Participative Pricing Mechanism in Online Services

Agnes Sophie Roggentin
University of Munster

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Abstract

Pay-What-You-Want has achieved special scientific interest, due to the counter-intuitive consumer behaviour as well as the potential (non-)monetary benefits for sellers. Customers voluntarily pay prices that are significantly above zero. This behaviour is particularly pronounced in interactions characterized by (high degrees of) social interaction, such as in the offline service industry. Contrary to offline, the online environment can be viewed as having little social interaction. Here, customers might thus take advantage of their pricing power by paying little or nothing. This study investigates how PWYW can be designed to be profitable for online service providers also. By conducting a laboratory experiment, the author finds that inducing perceived social presence via different image cues increases customers' willingness to complete a transaction, and consequently their WTP. Perceived enjoyment of the transaction as well as trustworthiness of the seller mediate this relationship.

Keywords: *Pay-What-You-Want; Online Services; Laboratory experiment*

Track: Pricing & Promotions