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

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We use two studies to show that price consciousness moderates the effects of altruism and internal reference price on consumers' willingness to pay (WTP). Moreover, social visibility (private vs. public) moderates the impact of goals (intrinsic vs. extrinsic), and this interaction disappears in the presence of an external reference price.

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EXTENDED ABSTRACT

Pay what you want (PWYW) is a 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). Despite growing interest in PWYW pricing, there are still many research gaps. First, 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 is 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 in this paper by showing that altruism does not have a direct influence on PWYW prices and its impact is moderated by price consciousness. We also show that price consciousness moderates the effect of internal reference price on WTP. Finally, we find that social visibility moderates the influence of consumer motivation (i.e., intrinsic or extrinsic) on their willingness to pay in the PWYW context.

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 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:

Hypothesis 1: Internal reference price has a stronger (weaker) effect on willingness to pay for consumers with lower (higher) levels of price consciousness.

Hypothesis 2: 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) rather than when they are alone (private). In contrast, consumers may be driven

by personal goals such as the PWYW experience (intrinsic goal) to a greater extent when they are alone (private) rather than when they are with others (public). Hence,

Hypothesis 3: 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 Patla, 2000). However, prior research on PWYW excludes the use of external reference pricing because the sellers in a PWYW setting generally do not display any retail or suggested prices. We argue that the interaction between goal framing and social visibility proposed under H3 may no longer hold in such a situation. First, when external price information is provided, consumers will 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 will have an external anchor on which they can rely in order to arrive at their pricing decision in a relatively more objective manner. Hence,

Hypothesis 4: The two way interaction between goal framing and social visibility becomes non-significant when external pricing information is provided

Study 1

We used a survey in Australia with 300 participants (40% females, 70% 19-28 years age) with a structured questionnaire that described an ethnic restaurant offering food in a nice ambience without charging customers a fixed price and allowing them to pay any price (including zero). We asked the respondents how much they would be willing to pay (WTP) for their food and then measured price consciousness, internal reference price, social desirability, future intentions and altruism using well-established scales followed by demographics (age, gender, income). We tested the hypotheses using hierarchical multiple regression analysis with mean-centered scores to avoid multicollinearity. Model 3 with all the two way interactions (PCO X IRP, PCO X ALT and ALT X IRP) shows the best fit ($R^2 = .59$, adjusted $R^2 = .58$ (F (8, 291) = 53.08, $p < .001$) with only IRP ($\beta = .58$, $p < .001$) and two interaction terms, PCO X IRP ($\beta = -.23$, $p < .001$) and PCO X ALT ($\beta = -.09$, $p < .05$) showing significant effects on WTP, supporting H1 and H2.

Study 2

We used a 2 (goal framing: intrinsic versus extrinsic) x 2 (social visibility: friends versus alone) between-subjects experiment design at a large Australian University. 127 students (67 female, 91% in 19-30 years age-group). Goal framing was manipulated by asking participants to imagine that the reason for joining the gym was to improve their fitness (intrinsic) versus looking good (extrinsic) for an

upcoming bike trip. Social visibility was manipulated by being alone or with a group of friends when making the payment for the gym. Using ANOVA we found a significant two way interaction between goal framing and social visibility ($F(1, 95) = 4.14, p < .05$) for the first dependent variable (RATIO1), hence H3 is supported. Next, we found the same two way interaction between goal framing and social visibility becomes non-significant ($F(1, 95) = 1.50, p > .05$) with RATIO2, thus supporting H4.

Note: References available upon request.