Pay what you want –
a new pricing strategy for wine tastings?

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Why wine tastings?
- important marketing tool for increase of sales and creation of customer loyalty
  - on the one side costs
  - on the other side customers feel obliged to buy (even if they don’t like)!
- tasting fee
  - most often there is no fee
  - only in some very touristic regions e.g. Napa Valley

Source: Hanf et al. (2012)
Research setting

• Aim of the paper
  
  the aim of our paper is to discuss the possibility to introduce “Pay-What-You-Want” pricing in the German wine business

• Outline
  
  - literature review “Pay-What-You-Want”
  - discussion
  - conclusion

Pay-What-You-Want

• Pay-What-You-Want

  Pay-what-you-want pricing (PWYW) is the most extreme form of participative pricing where a buyer has full control over the price setting. Sellers must accept any price, even if it is below their costs or zero (Kim et al., 2009).

• Research methods found in literature

  - experimental economics, field experiments as well as empirical data
  - ultimatum game and dictator game

Pay-What-You-Want

• Pay-What-You-Want

  - altruistic and fair behavior -> price higher than zero
  - free riding is not common -> not paying any amount
  - free riding is even by far less common when customers receive a product in return

• ‘not only affected by altruism and fairness’

  - ... subjects behaved less selfishly as they varied the degree of social distance
  - ... participants believed that their behavior was being monitored by the experimenter; more information about the recipient’s identity, leading to a more personal interaction
  -> selfishness increased with anonymity!

Pay-What-You-Want

• economic exchange relationships and social exchange relationships

  - economic exchange relationships are guided by market norms
  - social exchange relationships are guided by social norms of cooperation, reciprocity, and fair distribution

  -> ...PWYW transforms the relationship into a situation where behavior is guided by market as well as social norms
  -> ... If a customer decides to free ride by not paying for the products he received, this violates social norms of a fair exchange
(internal) reference prices

- internal reference prices are memory-based and provide price information that customers apply as benchmarks in subsequent price encounters
- serve as anchors when determining prices in participative pricing
- the upper limit of customers PWYW price range

- ... customers are aware that paying zero prices induces a loss for the seller, which makes it impossible to sustain the PWYW offer
- >... frequent shoppers in particular should be interested in a sustained PWYW offer and actually consider sellers outcomes when determining the price to pay

Examples

- Radiohead’s album “In Rainbows” in 2007
- gastronomy (e.g., Sobo Bistro, Sydney; ‘Wiener Deewan’ in Vienna and ‘Lentil as Anything’ in Melbourne)
- hotels (e.g., IBIS Singapore),
- music (e.g., Radiohead, Girl Talk)
- agribusiness?

Positive effects

- ...Giving buyers the freedom to pay what they want can be very successful in some situations, because it eliminates many disadvantages of conventional pricing
- it obviates the challenging and sometimes costly task of setting the “right” price
- eliminating fear of whether a product is worth a given set price
- eliminating the related risk of disappointment!
Discussion

- PWYW and Wine tastings
  - Our literature review on Pay-What-You-Want has shown that several factors have a strong impact on this price setting mechanism. These are:
    - Personal factors
    - Attitude and values
    - Product related factors

- Personal factors
  - social background
  - education and income
  - self-perception
  - price sensitiveness

- Attitude and values
  - sense of fairness and on justice
  - altruism, reciprocity, loyalty
  - as well as social norms and pressure

- Product related factors
  - brand/reputation
  - information asymmetries,
  - reference prices,
  - moment/situation of payment and anonymity at moment of the payment
  - satisfaction with the product/service
**Conclusion**

- PWYW and Wine tastings

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<th>Factors influencing PWYW</th>
<th>Detailed estimation</th>
<th>Aggregated estimation</th>
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*... To our understanding PWYW is quite attractive to wine estates as it could help to overcome cognitive dissonances; and provides the opportunity to cover the costs*