



Pride and patronage - pay-what-you-want pricing at a charitable bookstore[☆]



Christina Gravert

Department of Economics, University of Gothenburg, Vasagatan 1, SE 41124 Gothenburg, Sweden

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ABSTRACT

“Pay-what-you-want” pricing has proven successful in some settings while failing to be profitable in others. I conduct a field experiment at a charitable bookstore to investigate what role the relationship between the customer and the seller could play in a pay-what-you-want price scheme. When subtly reminded of their participation in the store’s membership program, members paid significantly more per book than without a reminder, while this reminder had no effect on non-members. Further, I find evidence that prices are sensitive to quantity chosen and evidence that is in line with a decay in prices over repeated purchases.

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1. Introduction

“Pay what you want” (PWYW) pricing has been successfully used to show that non-selfish behavior exists in markets. In a number of experiments and real-world situations, customers have paid above zero on average for a service or product which they could have gotten for free. Prominent examples are the PWYW online music sales by Radiohead and other musicians, restaurants such as Wiener Deewan or Panera Bread (Leonard, 2010) where customers can choose their price for their meal, sale of souvenir photos in Disneyland, Humble Bundle video games, Free City Tours and Lyft car sharing (see for example Gneezy et al., 2010; Kim et al., 2009; Regner and Barria, 2009; Riener and Traxler, 2012). However, there have also been cases where PWYW pricing was not successful. For example, only half of the buyers of the travel company Atrapalo’s PWYW vacation packages paid an amount larger than zero, amounting to only 5% of the product value and the Terra Bite Lounge in Seattle could not sustain their business model selling coffee on a PWYW basis (Leon et al., 2012). The question in the literature remains why some PWYW schemes are successful, and

others fail and how we can design optimal pricing mechanisms to maximize PWYW profits.

Several hypotheses exist about the circumstances under which PWYW, a form of endogenous price discrimination, is efficient. A number of recent studies have shown that for example reference prices (Soule and Madrigal, 2015; Gautier and Klaauw, 2012; Gerpott and Schneider, 2016; Johnson and Cui, 2013; Kim et al., 2014; Park et al., 2016), social norms (Soule and Madrigal, 2015; Regner, 2015; Riener and Traxler, 2012) and gain or loss framing (Schroeder et al., 2015) have sizable effects on voluntary prices (for a good overview over the recent literature see Greiff and Egbert (2016)).

However, most of these studies look at one-shot interactions with single item purchases. The current paper expands the literature by providing evidence on the decay of prices over repeated purchases and on the price elasticity when multiple products are bought in one transaction. Without further analysis, extrapolating from the results of the one-shot, single item studies could result in misleading profit calculations. Further, the setup in the current paper allows analyzing the effect of social distance between the buyer and the seller by exploiting a membership program. Social distance has been proposed as an important mechanism for profitable PWYW pricing, but there are no clear results yet. In a related paper, Kim et al. (2014) look at the social distance of the buyer-seller relationship but do not find any effect of social distance on the prices paid. However, they compare PWYW prices in two different settings for which they hypothesize that one of the differences is how well the customers know the seller.

In a field experiment conducted at a charitable bookstore, I analyze the effect of emphasizing the relationship between buyers and seller on PWYW prices for membership card holders and

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E-mail address: christina.gravert@economics.gu.se

regular customers. Every other week for eight weeks customers are exposed to a question about their membership status *after* they have made the decision whether to buy a book and how many but *before* they have to decide on the price they want to pay for the book(s). Customers can buy as many books as they would like in a transaction and choose a per unit price for the books.

I find that reminding members of their membership status significantly increases the average price paid per book by 70 cents, during their first PWYW transaction. This effect is offset in repeated transactions, which on average lower the price by around 80 cents from a baseline of 1.72 USD. I find no effect of the question about a membership status on non-members. For both groups, members, and non-members, the number of books bought significantly decreases the price paid per book by around 4 cents.

The paper extends the literature in several ways. First, while the design does not allow for pinpointing one mechanism for why members react to the reminder about their membership, it nevertheless provides further evidence that PWYW prices can be influenced by small costless interventions. It provides new evidence on the heterogeneity of consumer types and their reaction to PWYW pricing. Possible mechanisms that could drive the effect are discussed in Section 4.1. Second, given that previous PWYW studies have only looked at sales of individual items, this study provides new insight into the price elasticity when the number of goods increases. Moreover, third, it cautions to infer long-term PWYW profitability from studies that analyze one-off purchases.

2. Experimental design

The experiment was conducted from July 7th to September 1st, 2013 at a charitable bookstore in downtown Chicago. Open Books is a nonprofit social venture that since 2009 operates a bookstore based on donated books, provides community programs, and mobilizes volunteers to promote literacy in Chicago and beyond. The store attracts customers from all groups of society in Chicago.

While the store has around 50,000 books for sale, the experiment concentrated on two large bookshelves where the books were priced as “pay-what-you-want”. The books in these shelves are general interest fiction or non-fiction, which the bookstore would otherwise price at around 1 dollar. Over the period of the experiment, books to fill up the shelves were randomly drawn from a pile in the storage room. The 1 dollar price was not shown to customers but was a way of organizing newly donated books in the storage room by value. High-value books did not go into the PWYW pile. The PWYW campaign was not explicitly promoted. The bookshop is a very unusual community meeting place with many activities and events going on. I am thus rather confident that the PWYW shelves were not perceived as particularly salient.

60% of the customers are regular customers, and many of them have membership cards for the store. Most of these membership cards come with a yearly membership fee of 25 dollar while some are without a fee. When the store opened the first membership cards were for free, but after a year, the membership cards with a fee were slowly introduced. Since 2013 only membership cards with a fee have been available. Some of the free membership cards are still given out to very low-income individuals by discretion of the store manager. Buying a membership for a year is essentially a donation to Open Books for which the donor receives benefits throughout the year. The membership card is marketed as a club card: “Declare your love of reading and become an Open Books member!”. Members with a fee receive a free used book as a birthday present, a 10% discount on used books in the store and are invited to special events. The membership cards are electronic and swiped at the register so that members can receive the 10% discount. Membership cards without a fee do not qualify for a 10%

discount.¹ The difference between the members and the non-fee members lies partly in the amount of time they have been members and partly in their income level.

To buy a book from the PWYW shelf, customers had to fill out a small price card, which was supplied in a box visibly attached to the bookshelves. The process was the following: The customer walked up to the shelf, picked up the number of books he wanted to buy and then took one of the price cards to fill out. He then walked up to the register with the books and the completed card. I have received reports from the staff that these cards were always filled out. Nevertheless, if anyone would forget to fill out a card, extra cards were handed out at the register before a purchase could be made. The PWYW books were given a special register code so that these sales could be identified afterward. Members with a fee automatically received a 10% discount off each book when their cards were swiped. For all members, I have the information whether they have bought a PWYW book before, but I cannot link the purchases. For non-members, I cannot control for repeated purchases.

The experimental variation I introduced is very simple—a Treatment and a Control condition. In both conditions, the customer had to fill out: “I want to pay X dollar per book. Number of books: Y.” Also in both conditions, there was a sentence on the card stating: “All purchases help support literacy programs in Chicago.” However, in the Treatment condition, the top line of the card prompted customers to cross off: “I am a member of Open Books Yes / No?”. The Control condition did not have this first line. For obvious self-selection issues, merely comparing the behavior of members and non-members could not be used to identify a causal effect. I, therefore, put my focus on how members are affected by the question and how non-members are affected by the question. To avoid any trend effects, the treatments were alternated by week. The price cards were switched every Saturday night right before closing by the manager of the store. Both members and non-members were thus randomly exposed to one condition or the other, depending on the week they entered the store.

3. Results

156 transactions were made to purchase 707 PWYW books over the eight weeks of the experiment. Total proceeds were 485 dollars. The average number of purchase transactions per week were 19.5. I start with analyzing whether there are any differences between the treatments. Then I test the hypothesis that members were more affected by the treatment than non-members. Fig. A.1 shows the transactions per week. The light bars show the weeks with the additional question (Treatment) and the dark bars show the weeks without (Control).

A first visual inspection does not show any trend effects over the time for transactions.² Table A.1 in the Appendix presents a simple OLS regression on price paid and number of books bought with time dummies for each week using the first week without treatment (column 1) and the second week with treatment (column 2) as a base. There is no evidence of time effects. Fig. A.2 shows in three panels the distribution of the outcome variables: number of books sold per transaction, price paid per book and total price paid per transaction, divided by treatment.

¹ Since members with a fee received a discount of 10% of each book, also the PWYW books, the actual price paid is used for the analysis. I have no information on whether members already included the discount in their chosen price or if they wrote a higher price on the price card, anticipating a reduction at the register. For consistency, I always use the price paid. This approach might slightly understate the price they were willing to pay.

² With this design it is possible that some customers participated in both treatments. This cannot be controlled for with the data, as I cannot link purchases to individuals.

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