MESSAGES AND MINDSETS: FRAMING EFFECTS IN PAY WHAT YOU WANT PRICING

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ABSTRACT

Pay what you want pricing is increasingly popular among arts organizations. Not all organizations communicate this strategy in the same way. Variations on the "pay what you want" message, including "pay what you can" and "pay what you think the experience is worth," are common. This research examines the effects that these different message frames have on consumers' willingness to pay. Across four lab studies and a field study, a fit effect is found, in which message frames that fit with the consumer's mindset elicit the highest chosen prices. Specifically, when the consumer is in an exchange mindset, as is common in most purchase transactions, a "pay what you think it's worth" message frame is found to solicit the highest prices paid. However, when the consumer is in an altruistic mindset, as when the arts organization is nonprofit, a "pay what you can" message is found to be equally effective.

Keywords: Pricing Strategies, Pay What You Want, Message Framing

INTRODUCTION

Pay what you want pricing mechanisms, in which the price determination is delegated entirely to the buyer (Kim, Natter and Spann, 2009), continue to become increasingly popular among arts organizations. Participative pricing mechanisms such as pay what you want are attractive to organizations because they invite consumers into the price-setting game and attract consumers with their innovativeness (Chandran and Morwitz, 2005). From the consumers' perspective, being able to participate in setting the price implies that they are getting a better deal and saving money. Consumers tend to perceive this form of pricing strategy as fairer than the traditional firm-set price, and hence are more satisfied with participative pricing mechanisms (Haws and Bearden, 2006). From the firms' perspective, participative pricing mechanisms increase profitability by capturing consumers' heterogeneous product valuations and willingness to pay (Spann and Tellis, 2006).

When confronted with a pay what you want pricing strategy, consumers appear to exhibit an anchoring and adjustment process (Tversky and Kahneman, 1974). Consumers have been found to to anchor their chosen prices on their internal reference prices for the product (Kim, Natter and Spann, 2009) and on external reference prices provided by the organization (Johnson and Cui, 2013). However, the manner in which consumers adjust from these anchors to arrive at a final chosen price has not yet been examined in the literature.

One possible influence on consumers' adjustment processes may be the manner in which the pay what you want message is communicated. Not all organizations are communicating their pay what you want pricing strategies in the same way. Many organizations use a simple message of "Pay What You Want" or "Pay What You Wish," inviting consumers to choose any price they desire. However, a number of organizations are specifying that consumers should "Pay What You Think It's Worth," for example, asking consumers to make a donation "if they have enjoyed their experience." Finally, some organizations are presenting their pricing strategy as a mechanism to enable consumers with limited ability to pay to access the arts experience, inviting consumers to "Pay What You Can." While the basic mechanism involved in all of these strategies is the same – the consumer can choose any price to pay with no limitations from the

organization – the differences in meaning across these differently framed messages are likely to influence what price the consumer chooses to pay.

This research examines the effect of varying the message frame in a pay what you want pricing context on consumers' chosen prices to pay. Across four lab studies and a field study, a fit effect is found, in which message frames that fit with the consumer's mindset elicit the highest chosen prices. Specifically, when the consumer is in an exchange mindset, as is common in most purchase transactions, a "pay what you think it's worth" message frame is found to solicit the highest prices paid. However, when the consumer is in an altruistic mindset, as when the arts organization is nonprofit, a "pay what you can" message is found to be equally effective.

Message Framing and Consumer Willingness to Pay

Message frames have been found in the literature to influence willingness to pay in settings other than pay what you want. Consumers have been found to be more willing to donate to charity when the request message is framed positively rather than negatively (Chang and Lee, 2009), when the message frame activates communal rather than exchange norms (Johnson and Grimm, 2010), and when the message frame emphasizes intrinsic versus extrinsic rewards (Johnson and Ellis, 2011). Consumers have also been found to be willing to accept lower and less equitable prices when the transaction is framed with messages about communal sharing rather than market pricing (McGraw and Tetlock, 2005).

Message frames have also been found to elicit specific consumer mindsets toward an exchange. Framing a transaction within a social market rather than a monetary market led consumers to prefer non-monetary payments over money (Heyman and Ariely, 2004), suggesting that the consumers were operating in a non-exchange mindset. Similarly, framing a transaction as a donation with a reward, rather than a purchase, elicited higher purchase/donation rates among consumers (Holmes, Miller and Lerner, 2002, Popkowski Leszczyc and Rothkopf, 2010).

Much of this research revolves around two different consumer mindsets that lead to differences in consumer willingness to pay and purchase behavior. Specifically, the majority of this research focuses on the distinction between an exchange mindset (i.e. market pricing or money market), in which the consumer expects a fair, equitable outcome from the transaction and norms of fairness and equity govern the consumer's behavior, and an altruistic mindset (i.e. communal or social market), in which the consumer is willing to accept inequity if he/she perceives the outcome to be helping the other party. Although it has not previously been examined in the literature, consumers may also make decisions from an egoistic mindset, in which the consumer seeks to maximize his/her own benefit from the transaction, even at the expense of the other party's equity. The current findings in the message framing literature seem to suggest that the different message frames used to communicate pay what you want strategies may elicit these different mindsets among consumers, which would subsequently influence their chosen prices. Specifically, this research predicts that:

H1: A "Pay What You Want" message frame will elicit an egoistic mindset, leading the consumer to choose a price below his/her internal reference price.

H2: A "Pay What You Think It's Worth" message frame will elicit an exchange mindset, leading the consumer to choose a price close to his/her internal reference price.

H3: A "Pay What You Can" message frame will elicit an altruistic mindset, leading to different responses depending on the consumer's social status:
a) A high social status consumer will be in the mindset of a donor, and will choose a price above his/her reference price.
a) A low social status consumer will be in the mindset of a charity recipient, and will choose a price below his/her reference price.

Several researchers have also found that messages will be more effective when the message frame is consistent with the consumer's mindset. For example, consumers have been found to be more influenced by messages that are framed as gains when they are processing information in more detail, and more influenced by messages that are framed as losses when they are engaged in less detailed information processing (Maheswaran and Meyers-Levy, 1990). Messages that are framed as gains have also been found to be more effective when the consumer is in an abstract mindset, while messages that are framed as losses are more effective when the consumer is in a concrete mindset (White, MacDonnell & Dahl, 2011). Finally, the extensive literature on regulatory fit (e.g. Keller, Lipkus and Rimer, 2003; Lee and Aaker, 2004; Lee, Keller and Sternthal, 2010) consistently finds that positively framed messages are more persuasive when the consumer is in a promotion-focused mindset and negatively framed messages are more persuasive when the consumer is in a prevention-focused mindset.

This suggests that rather than eliciting a specific mindset, differently framed pay what you want messages may exhibit a fit effect, in which the message leads to higher chosen prices when it fits with the consumer's current mindset. Since these messages are being delivered in the context of a purchase transaction, the consumer can be expected to most likely be in an exchange mindset. This would therefore suggest that a message frame that fits with an exchange mindset will result in the highest willingness to pay. If there is a fit effect, this would suggest that:

H4: A "Pay What You Think It's Worth" message frame, being consistent with an exchange mindset, will lead the consumer to choose a higher price than a "Pay What You Want" or "Pay What You Can" message frame.

Summary of Studies

These hypotheses were tested across four laboratory studies and one field study. The four laboratory studies were conducted using the same procedure, consistent with what has been used in past literature (Johnson and Cui 2013). Participants were given a description of a new concert venue said to be opening in their area soon. The venue was described as a small, intimate space in which all seats provided an excellent view of the stage and a special, "up close and personal" experience. Participants were told to imagine that the venue had just announced its first season and a band or singer that they liked very much was included in the season. The concert was said to be on a day when the participant would be able to attend. Participants were then asked to imagine that they had decided to attend the concert, and while they were in the process of ordering a ticket on the Internet, they encountered a message about the pricing for the concert. The message frame was varied within the text of the message. The text of the different message frames used was pretested to ensure that it was communicating the intended message. Participants were then asked how much they would pay for their ticket, how much they thought the ticket was worth, and their internal reference price for concert tickets.

Study 1 provides an initial test of the effect of message frame on consumers' chosen prices in a pay-what-you-want context. One hundred and seven undergraduate students (55% male, mean age 21.6) were randomly assigned to one of the three message frame conditions: Pay What You Want, Pay What You Can, or Pay What You Think It's Worth. A one-way ANOVA revealed that message frame had a significant effect on chosen price ($F(2,104) = 6.16$, $p < .005$). A Tukey test revealed that participants who received the Pay What You Think It's Worth message frame chose a price that was significantly higher than participants who received the Pay What You Want message frame ($M_{Worth} = \$59.61$, $M_{Want} = \$34.81$, $p < .005$), consistent with H1 and H2. Participants who received the Pay What You Can message frame chose a price that was between the other two ($M_{Can} = \$46.16$), but was not significantly different from either (p's > .10). In addition, four participants in the Pay What You Want condition and one participant in the Pay What You Can condition chose to pay zero for their ticket, while all participants in the Pay What You Think It's Worth condition paid something for their ticket. Participants did not differ in their perception of what the ticket was worth ($F(2, 94) = 0.20$, $p > .10$) or in their internal reference price for concert tickets in their area ($F(2, 102) = 0.11$, $p > .10$). These results suggest that message framing does have an effect on consumers' chosen prices in a pay-what-you-want context. As this study was designed as a simple purchase context in which participants had no reason to be altruistic, the initial finding that participants in the Pay What You Think It's Worth condition chose the highest price appears to support the fit model proposed in H4.

Study 2 is replicates Study 1 with the addition of an external reference price. One hundred and eleven undergraduate students (70% male, mean age 18.5) were randomly assigned to one of the three message frames, and all participants were provided with the same $25 external reference price. Study 2 replicated the differences across conditions found in Study 1, with the Pay What You Want message frame leading participants to maximize their own surplus, choosing prices that were significantly lower than the other two conditions, and the Pay What You Think It's Worth message frame leading to the highest chosen prices, even in the presence of an external reference price, which is consistent with a fit effect. Participants' chosen prices were also compared to the given external reference price to determine whether they were adjusting upward or downward based on the message frame they received. Participants in the Pay What You Think It's Worth and Pay What You Can conditions chose prices that were significantly higher than the external reference price of $25.00 ($M_{Worth} = \$34.84$, $t = 1.82$, $p < .10$, $M_{Can} = \$28.66$, $t = 1.87$, $p < .10$), suggesting that both of these message frames led participants to adjust upward from the external anchor. In contrast, the mean chosen price in the Pay What You Want condition was significantly lower than the external reference price of $25.00 ($M_{Want} = \$20.24$, $t = 4.56$, $p < .001$), suggesting that this message frame led participants to adjust downward.

Study 3 examines the effect of social status predicted in H3 using a broader sample and measuring

household income. One hundred and fifty-six non-student participants (62% male, mean age 29, income ranging from less than $20,000 to more than $160,000) were randomly assigned to one of the three message frames. Once again, the main effect of message frame was replicated, with the Pay What You Think It's Worth message frame eliciting the highest chosen price, the Pay What You Want frame eliciting the lowest chosen price, and the Pay What You Can frame between the two. As social status was only expected to influence willingness to pay in the Pay What You Can condition, an additional analysis was performed within only that condition that revealed a significant main effect of income ($M_{High\ Income}$ = $40.05, $M_{Low\ Income}$ = $20.73, $p < .005$). Participants were also asked a set of open-ended questions about their interpretation of the message frames, and the results revealed that the majority of the participants in the low income group perceived the Pay What You Can message as an altruistic gesture made by the organization, with the consumer as the recipient of the generosity, while only a small percentage of participants, primarily in the high income group, viewed themselves as donors or givers.

Study 4 directly tests the fit effect by priming the participants into either an altruistic or egoistic mindset, rather than their apparent default of an exchange mindset. Sixty undergraduate students (38% male, mean age 20.8) were randomly assigned to one of the two mindset primes and one of the three message frames. A significant interaction effect was found ($F(2, 54) = 5.46$, $p < .01$). Post hoc tests revealed that in the Pay What You Can condition, the altruistic mindset led to a significantly higher chosen price than the egoistic mindset ($M_{Altruistic}$ = $42.67, $M_{Egoistic}$ = $25.00, $F = 6.90$, $p < .05$), and the opposite pattern occurred in the Pay What You Want condition ($M_{Egoistic}$ = $32.69, $M_{Altruistic}$ = $16.43, $F = 3.72$, $p = .07$). The mindset primes had no effect on chosen prices in the Pay What You Think It's Worth condition ($M_{Altruistic}$ = $37.50, $M_{Egoistic}$ = $39.44, $F = 0.10$, $p > .10$), further supporting the fit effect between consumer mindset and message frame.

Finally, Study 5 is a field study conducted in a jazz club across four consecutive weekends of performances. The jazz club did not charge a ticket price or cover charge, but used the "pass the hat" approach. During the intermission of each performance, the club manager delivered a message to the audience from the stage that was framed as either Pay What You Want, Pay What You Can, or Pay What You Think It's Worth, and then a club volunteer circulated to collect any payments that audience members wished to make. The total funds collected each night was recorded, along with the number of audience members who paid and the total number of audience members in attendance. The jazz club is a registered nonprofit organization, suggesting that audience members may not necessarily be in an exchange mindset, and that some may be in an altruistic mindset. Consistent with this assumption, audience members who received the Pay What You Think It's Worth and Pay What You Can messages both paid higher average prices ($9.35 and $8.87, respectively) than audience members who received the Pay What You Want message ($6.21), and a higher percentage of audience members paid in the Pay What You Think It's Worth and Pay What You Can conditions (39% in both conditions) than in the Pay What You Want condition (26%). This suggests that when consumers may be in an altruistic mindset, both Pay What You Think It's Worth and Pay What You Can will be effective in soliciting higher chosen prices.

CONCLUSION

Across five studies, this research finds that message frames do have an effect on consumer willingness to pay in a pay what you want setting. Specifically, a fit effect appears to occur, in which messages that are framed consistently with the consumer's mindset elicit higher chosen prices. Since most arts audiences are in an exchange mindset, a Pay What You Think It's Worth message frame is likely to be the most effective. However, arts organizations that are nonprofit and viewed by their audiences as somewhat charitable are also likely to benefit from using a Pay What You Can message frame to elicit higher chosen prices from their audiences.

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