"HOW MUCH WOULD YOU LIKE TO PAY?" THE EFFECTS OF PARTICIPATIVE PRICING MECHANISMS ON CONSUMERS' BEHAVIOR

ABSTRACT

Participative pricing mechanisms allow consumers to participate in the price-formation process. This paper empirically investigates two participative pricing mechanisms: pay-what-you-want (PWYW) and name-your-own-price (NYOP). While the former allows consumers to dictate the price they are willing to pay (including zero), the latter gives companies the possibility of setting a threshold price, and reject the consumer's offer if it is too low. The main purpose of this research is to investigate the role of participative pricing mechanisms on consumer satisfaction, pain of payment, and willingness to pay, as well as the effects of perceived control as an antecedent of satisfaction and pain of payment. The results of two experimental studies show that consumers are more satisfied and feel less pain of payment when a PWYW mechanism is adopted, but they are willing to pay significantly less than when an NYOP mechanism is adopted. However, when retailers use external reference prices, they are able to positively influence consumers' willingness to pay in both pricing mechanisms; nevertheless, the presence of external reference prices reduce consumers' satisfaction and increases pain of payment. Finally, we find that consumer satisfaction and pain of payment is mediated by consumers' perceived control.

Keywords: Participative pricing; Name-your-own-price; Pay-what-you-want.

1 INTRODUCTION

When people search for a product or service on a store or with a service provider, they usually are faced with pre-established prices informed by the retailer (posted prices). Consumers often play a passive role on this process, and buy from companies that in their opinion have a reasonable price for what they are looking for. However, a growing body of research suggests that participative pricing mechanisms that allow consumers to participate in the formation of the price they have to pay, may increase sales and market participation (e.g., KRÄMER et al., 2017) without reducing the company's profit (e.g., SHAPIRO; ZILLANTE, 2009; HINZ; SPANN, 2010; ISAAC; LIGHTLE; NORTON, 2015). Examples of participative pricing mechanisms include auctions, reverse auctions, name-your-own-price auctions, and pay-what-you-want pricing (DORN; SUESSMAIR, 2016).

While auctions and reverse auctions involve a large number of buyers and sellers, a distinction can be made between participative pricing mechanisms that involve only two players: one buyer, and one seller (DORN SUESSMAIR, 2016). Under this criterion, the literature has explored two pricing mechanisms. The first, known as pay-what-you-want (PWYW), allows consumers to pay any value, including zero, for a product or service. Under this mechanism, the retailer cannot refuse to sell the product or service, despite of consumers' willingness to pay (KIM; NATTER; SPANN, 2009). The second, known as name-your-own-price (NYOP) differs from the first because retailers establish a threshold price, which is unknown by the consumer (FAY, 2004). Thus, the retailer can refuse the consumer's offer if it is below its costs. A variety of practical applications of participative pricing mechanisms can be found in restaurants, museums, tickets, tourism and even music downloads (SCHONS et al., 2014).

A great amount of attention has been given to explore how these pricing mechanisms impact companies' profitability, and have shown that participative pricing mechanisms can be feasible if appropriately structured (e.g., FAY, 2004, 2009; TERWIESCH; SAVIN; HANN, 2005; SHAPIRO; ZILLANTE, 2009; HINZ; SPANN, 2010; HINZ; HANN; SPANN, 2011;

SHAPIRO, 2011; GNEEZY, et al., 2012; CHAO; FERNANDEZ; NAHATA, 2015; ISAAC; LIGHTLE; NORTON, 2015). Despite its similar configuration (e.g., direct interaction between one buyer and one seller), only one study compared the effects of NYOP and PWYW (KRÄMER et al., 2017). Such study focused on the effects of each pricing mechanism from a company-based perspective (e.g., profitability, price competition, press coverage by word-of-mouth recommendations, and so on), without showing the effects of each participative pricing mechanism on consumer behavior.

On the consumers' side, some questions remain unanswered. First, even though consumers' satisfaction with the pricing mechanism was studied in NYOP (e.g., FAY; LARAN, 2009; HINZ; HANN; SPANN, 2011), most studies on PWYW have approached satisfaction with the retailer/service provider, not with the pricing mechanism. There is not a comparative study investigating which of the two pricing mechanisms generate higher satisfaction. Second, there are evidences that consumers rarely feel satisfied when paying for a product or service (i.e., pain of paying) (PRELEC; LOEWENSTEIN, 1998). However, previous researches have mostly investigated how consumers' pain of payment is influenced by different methods of payment (e.g., credit card vs. cash). Therefore, there is no investigation regarding the effects of NYOP and PWYW on consumer pain of payment. Both NYOP and PWYW could reduce consumers' pain of payment since these pricing mechanisms allow them to have (some) control over how much they pay for a product or service. Third, the literature also lacks of explanations about the role of consumer perceived control under NYOP and PWYW mechanisms. Higher perceptions of control lead to higher levels of satisfaction and more pleasant service experiences in contexts unrelated to NYOP and PWYW (e.g., HUI; BATESON, 1991; NAMASIVAYAN; GUCHAIT, 2013). Both NYOP and PWYW could increase consumer perceived control, which in turn could be an antecedent of consumer satisfaction and pain of payment.

Moreover, the literature indicates that when retailers provide an external reference price, they create an anchor that usually drives payments upwards (see KIM; NATTER; SPANN, 2009; KIM; KAUFMANN; STEGEMANN, 2014). However, some scholars state that consumers may feel like they are being manipulated when companies use an external reference price under participative pricing mechanisms (JOHNSON; CUI, 2013). Furthermore, there has not yet been a comparative investigation on how the presence of an external reference price influences consumers' behavior and willingness to pay (e.g., PWYW vs. NYOP). The main purpose of this research is to investigate how participative pricing mechanisms (PWYW and NYOP) impact consumers' perceived control, satisfaction, and pain of payment, and whether the presence (vs. absence) of an external reference price influences consumers' behavior and willingness to pay.

Many companies that sell perishable services (e.g., airlines, hotels, entertainment), face large fixed costs and a very fluctuating demand (KRÄMER et al., 2017). PWYW and NYOP are often used by firms with high fixed costs and low marginal (or variable) costs in order to sell excess capacity in times of low demand (KRÄMER et al., 2017). There are many direct and indirect benefits associated with PWYW and NYOP. For instance, they may achieve endogenous price discrimination, because consumers pay different prices according to their valuations and perceptions of fairness, trust, and degree of risk aversion (KRÄMER et al., 2017). They often initiate word of mouth recommendations (KIM; NATTER; SPANN, 2009), and can be a powerful tool to promote products to a broader audience, increasing demand for complementary products (KRÄMER et al., 2017). By investigating and comparing the effects of PWYW and NYOP on consumer behavior, we hope to provide insights for companies that consider adopting participative pricing mechanisms (e.g., which of the two creates the best buying experience, or which of the two yields higher willingness to pay). We also hope to contribute to the literature by investigating pain of payment under

different circumstances that it has been investigated so far, and by explaining the mechanism under which pain of payment and satisfaction are created on PWYW and NYOP (e.g., perceived control).

2 LITERATURE REVIEW

2.1 PAY-WHAT-YOU-WANT & NAME-YOUR-OWN-PRICE

PWYW is a relatively new participative pricing mechanism in which consumers are granted with maximum control over the price they pay for a product or service (KIM; NATTER; SPANN, 2009; GEXTERNAL REFERENCE PRICEOTT, 2017). Therefore, consumers dictate the price and retailers cannot reject it (KIM; NATTER; SPANN, 2009; TUDÓN, 2015). Even though economic theory would suggest that consumers would want to achieve the greatest benefit by paying the least amount possible, there appears to exist a consensus among researchers that prices paid in PWYW are significantly greater than zero (e.g., LYNN, 1990; KIM; NATTER; SPANN, 2009; JOHNSON; CUI, 2013).

Several reasons regarding consumer behavior may explain this: consumers seem to fear social disapproval, have self-image concerns (e.g., consumers may feel guilty when they think they have paid less than the fair price for a product or service), and do not want to appear poor or cheap (LYNN, 1990; KIM; NATTER; SPANN, 2009; GNEEZY et al., 2012; KUNTER, 2015). The amount consumers are willing to pay mainly depends on four factors: perceptions of fairness, satisfaction, price consciousness, and consumers' net income (KIM; NATTER; SPANN, 2009; GNEEZY et al., 2012; SCHONS, et al., 2014; KUNTER, 2015).

If correctly implemented, PWYW may increase the companies' sales (KIM; NATTER; SPANN, 2009; GNEEZY, et al., 2010; KRÄMER et al., 2017) and even profits (KIM; NATTER; SPANN, 2010; GNEEZY, et al., 2012; CHAO; FERNANDEZ; NAHATA, 2015; ISAAC; LIGHTLE; NORTON, 2015), even when consumers are self-interested (MAK et al., 2015). But these results are not a consensus amongst researchers. Krämer et al. (2017), for example, demonstrated that although PWYW is a very aggressive strategy, it is profitable only if marginal costs are low, and if there are promotional benefits, such as press coverage and word-of-mouth recommendations.

The NYOP mechanism was created and has been popularized by the travel services platform Priceline.com (FAY, 2004). According to Mills and Law (2001), on Priceline.com, consumers bid for the service (e.g. airline tickets, hotels and car rentals) offered on the retailer's website and must guarantee their offer by using a credit card. Priceline.com then communicates the offer directly to participating providers, such as airlines, hotels or rental car companies. Consumers cannot choose arrival and departure times, which instead are determined by the provider (MILLS; LAW, 2001; ANDERSON, 2009). If the placed bid is too low, the system informs the user about the possibility of having the bid refused; the user may then choose to retain the same bid or re-submit a new bid within an acceptable range suggested by the system (MILLS; LAW, 2001). Usually, within fifteen minutes, the user is informed by e-mail whether the bid has been accepted (MILLS; LAW, 2001).

NYOP can increase customers' satisfaction (FAY; LARAN, 2009; HINZ; HANN; SPANN, 2011), savings—when consumers decide to haggle with retailers (JOO; MAZUMDAR; RAJ, 2012; LEVINA et al., 2015; TERWIESCH; SAVIN; HANN, 2005), and increase a product or service expected value, especially when consumers can bid for multiple items at the same time (GUPTA; ABBAS, 2008). On the other hand, consumers are usually not satisfied when only one bid is allowed by companies (SPANN; SKIERA; SCHÄFERS, 2004). In addition, NYOP can often result in irrational decision making (SPANN; TELLIS, 2006), and may result in higher frictional costs (HANN; TERWIESCH, 2003; TERWIESCH;

SAVIN; HANN, 2005), which reduces willingness to pay (SPANN; SKIERA; SCHÄFERS, 2004).

Companies may benefit from adopting an NYOP strategy and, quite often, adopt an NYOP strategy without excluding posted prices from their business models (CAI; CHAO; LI, 2009). Some of the benefits of the NYOP mechanism pointed by the literature include: facilitation of price discrimination (TERWIESCH; SAVIN; HANN, 2005); higher profits (HANN; TERWIESCH, 2003; FAY, 2004, 2009; TERWIESCH; SAVIN; HANN, 2005; SHAPIRO; ZILLANTE, 2009; HINZ; SPANN, 2010; HINZ; HANN; SPANN, 2011; SHAPIRO, 2011; WANG et al., 2016); increase of consumers' willingness to pay (when frictional costs are reduced) (SPANN; SKIERA; SCHÄFERS, 2004); increase of market participation (FAY; LI, 2015); easy disposal of unsold capacity (WANG; GAL-OR; CHATERJEE, 2009; KRÄMER et al., 2017); and reduction of competition (FAY, 2009; KRÄMER, et al., 2017).

2.2 CONSUMERS' PERCEIVED CONTROL

A widely accepted definition for perceived control in the literature is "the perceived ability to significantly alter events" (BURGER, 1989, p. 246). It is crucial to mention that, sometimes, people's perception of control over situations are inaccurate; thus, perceptions of control matter more than actual control over situations (BURGER, 1989). Although some studies state that participative pricing (e.g., PWYW) grant full control to consumers over the price paid (e g., KIM et al., 2009), only a few have measured perceived control as an antecedent of consumer behavior in participative pricing.

In a series of three experimental studies, Chandran and Morwitz (2005) manipulated the level of perceived control (low vs. high) of consumers under different price conditions (auction vs. posted price). It was found that high perceived control leads to higher intention to purchase on auctions, but led to lower purchase intention on the posted price mechanism. Their research further demonstrated that consumers under participative pricing tended to focus their attention on setting the final price, rather than evaluating the deal. This, in turn, led to higher purchase intentions (CHANDRAN; MORWITZ, 2005).

Skinner (1996) argued that choice is a potential antecedent of perceived control. Therefore, the possibility of making a choice leads to higher perceptions of control (SKINNER, 1996; PACHECO; LUNARDO; DOS SANTOS, 2013). Participative pricing mechanisms, such as PWYW and NYOP, allow consumers to make a pricing choice, which does not take place in posted prices. Thereafter, it is believed that allowing consumers to make a pricing choice may lead to higher perceptions of control than when posted prices are used. This is also aligned with Averill's (1973) decisional type of control. PWYW will generate more perceived control because there is a decisional aspect (choice) involved, while in NYOP the price choice is only a possibility which may be refused by the company if the bid is below the threshold price. However, it is believed that NYOP generates less perceived control than PWYW, but still more than posted prices, because consumers still participate in the price formulation process. Thus:

H1 – PWYW leads to higher perceptions of control than NYOP and posted prices, and NYOP leads to higher perceptions of control than posted prices.

2.3 CONSUMERS' SATISFACTION WITH PARTICIPATIVE PRICING MECHANISMS

The literature on PWYW approaches consumers' satisfaction differently than the literature on NYOP. In PWYW, the majority of studies conceptualized satisfaction as an antecedent of the amount paid for the product or service (GEXTERNAL REFERENCE

PRICEOTT, 2017). For instance, the amount paid for a service vary if consumers pay *before* or *after* experiencing the service, because PWYW can be used as a mechanism where consumers immediately express their dissatisfaction with a service, if payment occurs after the service experience (HOMBURG; KOSCHATE; HOYER, 2005; GEXTERNAL REFERENCE PRICEOTT, 2017). Gexternal reference priceott (2017) argued that, until then, nine studies found that consumer satisfaction is positively correlated with prices paid under PWYW after consumption. However, in PWYW, the satisfaction with the pricing mechanism *per se,* as well as the antecedents of the satisfaction with PWYW were not deeply explored by the literature.

On the other hand, some NYOP studies focused on the satisfaction with the pricing mechanism, because under NYOP, consumers usually bid and pay before experiencing the service. Thus, unlike PWYW, NYOP cannot be used as a tool for consumers to express dissatisfaction with the product or service. Fay and Laran (2009), for instance, studied how consumers' expectations about changes in the seller threshold price impacted satisfaction towards NYOP. Their results indicate that consumers are more satisfied when they expect a variability in the seller threshold price. Although it was difficult for the authors to determine the reasons for this result, they speculated that it is due to the perception that the bidding process may appear more favorable to consumers if there is a probability of change in the threshold price, because it increases consumers' chance to get better prices. Hinz, Hann and Spann (2011) conducted a similar study, and discovered that sellers can adopt an adaptive threshold price policy (e.g., different consumers can find a different threshold price) without lowering consumer satisfaction with NYOP. Likewise in PWYW, the literature lacks of further explanation of the antecedents that generate satisfaction with NYOP.

Participative pricing mechanisms have an innovative appeal in retailing, because it is unconventional to involve consumers in the price formation process (KIM et al., 2009). Therefore, consumers may feel surprised when they are invited to help determine the price of a product or service. The literature explains that satisfaction happens when consumers' expectation is positively disconfirmed (e.g., TSE; WILTON, 1988; ANDERSON; SULLIVAN, 1993; SPRENG et al., 1996). Hence, participative pricing mechanisms should generate higher satisfaction than the posted price mechanism because consumers expect to find a posted price, but are invited to participate in the price formation process instead. Furthermore, PWYW should generate higher expectation disconfirmation, thus higher satisfaction, than NYOP because consumers know that their offer cannot be refused by the retailer in PWYW. Based on this, we present the following hypothesis:
H2 – PWYW generates higher satisfaction than NYOP and posted prices, and NYOP generates higher satisfaction than posted prices.

Hui and Bateson (1991) argued that perceived control is an important antecedent of the consumer's emotional and behavioral responses. For instance, it increases the pleasantness of a service experience (HUI; BATESON, 1991; UHRICH, 2011), positively impacts trust, self-esteem and fairness perceptions, which in turn, influence consumers' satisfaction with service providers (NAMASIVAYAN; GUCHAIT, 2013), positively impacts affect when consumers are allowed to co-produce the product or service with the company (STEVENS et al., 2017), increases consumers' satisfaction, value co-creation and intentions of doing business with the company in the future even after a service failure (BOLKAN; GOODBOY; DALY, 2010; GUO et al., 2015).

In situations that do not involve participative pricing, it has been widely shown that perceived control is an important antecedent of consumers' satisfaction (BOLKAN et al., 2010; NOONE; WIRTZ; KIMES, 2012; PACHECO et al., 2013; NAMASIVAYAN; GUCHAIT, 2013; GUO et al., 2015). It is expected that the relation between participative

pricing mechanisms and satisfaction with the pricing mechanism is mediated by consumers' perceived control. Therefore, it is hypothesized that:
H3 – Perceived control mediates the relation between the pricing mechanism (PWYW, NYOP and posted price) and satisfaction with the pricing mechanism.

2.3 PAIN OF PAYMENT

Consumers often experience pain of payment immediately after making a purchase, which works as a reminder of the sacrifice that are originated by purchases (PRELEC; LOEWENSTEIN, 1998). Pain of payment can be defined as a series of negative feelings associated with the costs of a purchase that may undermine the pleasure that one drives from it (PRELEC; LOEWENSTEIN, 1998). Evidences from neuroscience are consistent with the idea that consumers' decisions involve tradeoffs between the pleasure of acquisition of a product or service, and the generated pain of payment (KNUTSON et al., 2007).

Consumers are risk averse, which means that they often prefer to prepay for products or services, so that they can minimize thoughts of payment and they can enjoy products and services as if they were free (i.e., consumers want to know how much something costs, but do not wish to overly think about these costs) (PRELEC; LOEWENSTEIN, 1998). Furthermore, Prelec and Loewenstein (1998) argue that the best scenario for a low pain of paying is one where payments are attached to consumption, but consumption is not attached to payments, so that only thoughts about the benefits of the product or service are evoked (e.g., prepaying for a service may create the illusion of free benefits without sacrificing accountability). Therefore, companies developing a pricing strategy should try to reconcile these conflicts, "creating an illusion of free benefits without sacrificing accountability" (PRELEC; LOEWENSTEIN, 1998, p. 26).

PWYW and NYOP could increase consumers' pain of payment in comparison to posted prices because on participative pricing consumers' attention stays focused on the task of setting the price for the product or service (CHANDRAN; MORWITZ, 2005). However, increasing consumers' perceived control may lead to more pleasurable buying experiences (HUI; BATESON, 1991). Perceived control also increases perceptions of fairness and trust, and positively influences affect towards the company (UHRICH, 2011; NAMASIVAYAN; GUCHAIT, 2013; STEVENS et al., 2017). Consumers see prices generated through PWYW as fairer than posted prices (BETTRAY et al., 2017). Thus, enhancing consumers' perceptions of control through participative pricing mechanisms may reduce consumers' pain of payment by creating a more pleasurable buying experience and enhancing perceptions of fairness and trust. In addition, because in PWYW consumers have the freedom to pay any amount, it is believed that PWYW generates lower levels of pain of payment than NYOP. Thereby, it is hypothesized that:
H4 – Perceived control mediates the relation between the pricing mechanism (PWYW, NYOP and posted price) and pain of payment, and PWYW generates lower pain of payment than NYOP and posted prices, and NYOP generates lower pain of payment than posted prices

Despite behavioral and emotional aspects of consumer willingness to pay under PWYW pricing, companies may employ tactics to increase the amount paid. For instance, the addition of an external reference price increases consumers' willingness to pay in PWYW (KIM; NATTER; SPANN, 2009; KIM; KAUFMANN; STEGEMANN, 2014; SCHRÖDER; LÜER; SADRIEH, 2015; SOULE; MADRIGAL, 2015; WEINSSTEIN; KUKAR-KINNEY; MONROE, 2016).

Reference prices are standards against which prices are compared (MONROE, 1973; KALYANARAM; WINER, 1995; MAZUMDAR; RAJ; SINHA, 2005). Reference prices are

usually built internally, based on consumers' previous shopping experiences (KALYANARAM; WINER, 1995). However, since participative pricing mechanism do not set an internal reference price (KRÄMER et al., 2017), companies that adopt participative pricing mechanism may provide an external reference price in order to try to increase the amount paid. For instance, companies may inform consumers how much the product or service normally costs under a posted price mechanism (KIM; NATTER; SPANN, 2009).

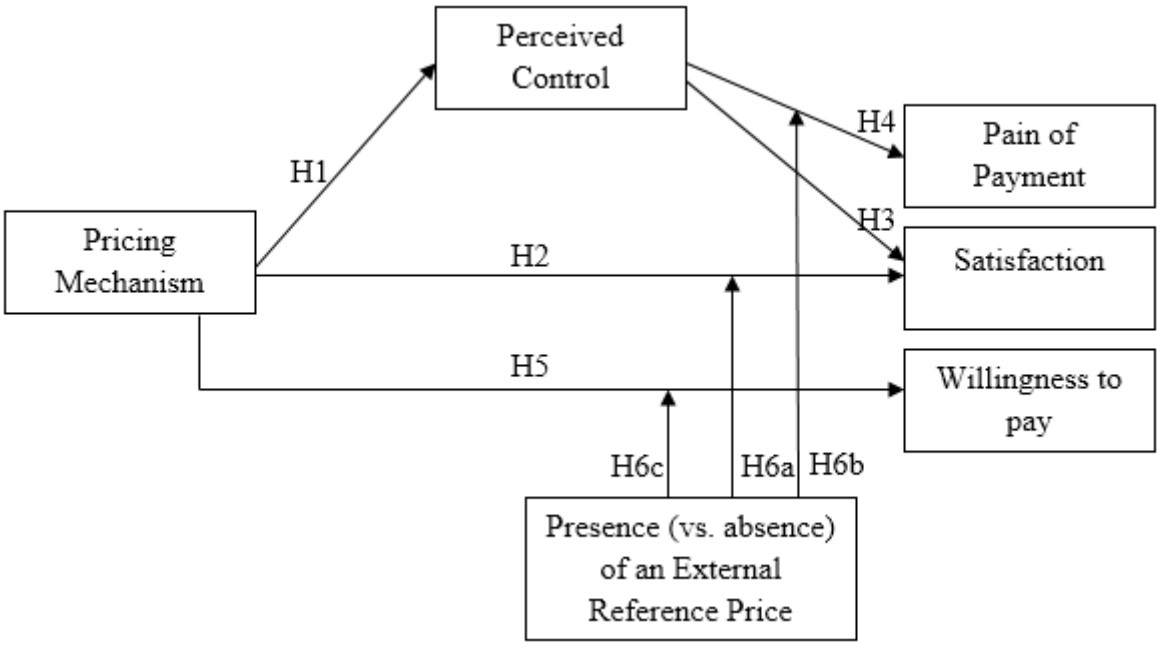
The question of whether or not to provide a reference price is not a consensus among theorists. For instance, even though most argue that the addition of an external reference price have a positive impact on the final price paid in a PWYW setting, increasing the price paid (e.g., KIM; NATTER; SPANN, 2009; KIM; KAUFMANN; STEGEMANN, 2014; ISAAC; LIGHTLE; NORTON, 2015; SOULE; MADRIGAL, 2015), others argue that not using external reference prices may be the best alternative, leading to higher prices paid (JOHNSON; CUI, 2013).

Moreover, reference anchors, such as reference prices, determine how consumers frame or interpret the consequences of a decision (KALYANARAM; WINER, 1995; KAHNEMAN; TVERSKY, 1979; HOLMES et al. 2011; SOSTER; GERSHOFF; BEARDEN, 2014). Kim, Natter and Spann (2009) confirmed that adding an external reference price pushes payments upwards. In their field study, the regular unit price (i.e., posted price) of selected products were provided to consumers prior to PWYW payments. It was confirmed that prices paid were significantly higher for products where the regular price was provided, than when consumers did not have a reference price. Kim, Kaufmann and Stegemann (2014) found the same results, indicating that sellers benefit by providing external reference prices, and revenues are increased. However, although Johnson and Cui (2013) showed that firms yield revenues while suggesting a price that is close to consumers' internal reference price, they argued that this strategy may have a drawback, because it may lead consumers to believe that the pricing strategy is not actually a PWYW. Instead, they may feel like they are being manipulated into paying a price chosen by the company (JOHNSON; CUI, 2013). Meanwhile, Johnson and Cui (2013) did not empirically measure and compare consumers' satisfaction before and after the addition of the external reference price. Therefore, aligned with previous studies, it is expected that the external reference price will increase willingness to pay, which shall also increase pain of payment, and decrease satisfaction. Furthermore, because in NYOP consumers know that the company may refuse to sell the product or service if the bid is too low (KIM; NATTER; SPANN, 2009; SCHONS et al., 2014), it is expected that consumers' willingness to pay in NYOP will be higher than in PWYW. Figure 1 shows the theoretical model of this research.

H5 – Consumers' willingness to pay will be higher in NYOP than in PWYW.

H6 – The presence (vs. absence) of an external reference price moderates the relation between participative pricing mechanisms, and satisfaction and willingness to pay, so that the presence of an external reference price will: (a) decrease consumers' satisfaction,(b) increase consumers' pain of payment, and (c) increase willingness to pay.

Figure 1. Theoretical model of research



3.1 STUDY 1

The purpose of this study is to compare the impact of each pricing mechanism on perceived control (H1), satisfaction (H2), and the former's influence on satisfaction (H3), and pain of payment (H4).

Design and Participants. Study 1 is a single factor, between-subjects experiment that manipulates three different participative pricing mechanisms (posted price vs. NYOP vs. PWYW), with random assignment.

In total, 125 participants were recruited in the Figure Eight (i.e., a web service similar to Mechanical Turk). Participants were residents of the United States, Canada, and the United Kingdom. Fifty six percent were female, and participants' age ranged from 18 to 79 years old (M_{age}=38.86, sd=13.58).

Procedures. The study simulated an online shopping experience of a concert ticket, adapted from the experimental studies of Soule and Madrigal (2015). Before reading the manipulation text, participants were asked the name of their favorite band, which was used on the manipulation texts and in the questions in order to increase participants' involvement with the task. After answering the name of their favorite band, they read the following text: "*Imagine you are living the following situation: You visit a website to buy a ticket for a concert of [Favorite Band Name]. After choosing your seat, you proceed to checkout*".

Participants assigned to the PWYW scenario read the following sentence: *"Pay What You Want! Our pricing policy lets you decide the amount you would like to pay for your ticket. Once you enter the price you will pay, you can download your ticket. You can choose to pay any amount for your ticket. All tickets are general admission, so the price that you pay will not affect where you sit at the concert. You must pay now with a credit card. How much would you like to pay in US dollars?"* They were informed that they could only pay with a credit card in order to control possible differences in pain of payment generated by different payment methods (PRELEC; LOEWENSTEIN, 1998; SOMAN, 2001).

Participants assigned to the NYOP scenario read the following sentence: *"Name-your-own-price! Our pricing policy lets you make an offer for the amount you would like to pay for your ticket. Once you enter the price you wish to pay, the system will calculate if your*

bid can be accepted. You can offer to pay any amount for your ticket, but your offer may be refused if your bid is too low. All tickets are general admission, so the price that you pay will not affect where you sit at the concert. If your offer is accepted, you must pay now with a credit card. How much would you like to pay?".

Participants assigned to the posted price scenario read the following sentence: *"Our pricing policy informs you the price to be paid for your ticket. All tickets are general admission, so the price that you pay will not affect where you sit at the concert. You must pay now with a credit card. The price of your ticket is $ 116 dollars".* The value of the posted price (i.e., $116 dollars) considered the results of a pretest conducted with 41 US-resident participants, which had to imagine that they visited a website to buy a ticket for a concert of their favorite band.

Measures.

Manipulation checks.

The manipulations were checked with three questions. The participants indicated their level of agreement with the following statements, on a 5-point-Likert-scale: (1) "The price of the ticket of [Favorite Band Name] was informed by the website, so I did not indicate how much I wanted to pay for it," (2) "I could make an offer of the price that I wanted to pay for the ticket of [Favorite Band Name] but the website could refuse my bid," and (3) "I could pay the price I wanted for the ticket of [Favorite Band Name], and the website could not refuse my offer".

Control variables.

The experiment used demographic variables (i.e., gender, age, highest level of education, and family's yearly income) and participants' involvement with music concerts as control variables. Participants' involvement with music concerts was assessed through a 10-item-bipolar scale (e.g., for you, music concerts are: unimportant-important, boring-interesting, etc.), with 5 points, adapted from the study of Zaichkowsky (1994). The control variables were tested but did not significantly impact the relation between the independent and dependent variables.

Dependent variables.

Pain of payment was assessed through a 7-item-Likert-scale (e.g., I felt irritated with this pricing method), and a non-verbal, 5-point sliding scale with a sad face (☹) at one extreme, and a happy face at the other extreme (☺), adapted from the study of Thomas, Desai and Seenivasan (2011) (α= .943). Satisfaction with the pricing mechanism was assessed through a 4-item-Likert-type-scale (e.g., I was very satisfied with this pricing policy), adapted from the study of Wen, Prybutok and Xu (2011) (α=.977). Finally, the mediator variable (perceived control) was assessed through a 4-item-Likert-type-scale (e.g., In this website, I feel in control over the situation) adapted from Van-Rompay et al. (2008) (α= .925).

Results.

Manipulation checks.

The participants perceived the price on the website when it was available ($M_{Posted\ Price}$= 4.76), against when it was unavailable ($M_{PWYW=}$ 1.50; $M_{NYOP=}$ 1.56; F (2,124) = 173.86, p < .0001). The participants correctly perceived that the website could refuse the bid in the NYOP ($M_{NYOP=}$ 4.47) against the two other conditions ($M_{Posted\ Price}$= 1.60; $M_{PWYW=}$ 2.18; F (2,124) = 73.41, p < .0001). Finally, the participants correctly perceived that the website could not refuse the offer in the PWYW ($M_{PWYW=}$ 4.30) against the other two conditions ($M_{NYOP=}$ 1.72; $M_{Posted\ Price}$= 1.40; F (2,124) = 87.61, p< .0001). Therefore, all the manipulations were successful.

Hypotheses tests.

In the test of H1, there is a significant difference in the perceived control between the groups (F (1,124) = 30.73, p < .001). PWYW ($M_{PWYW=}$ 4.23) generated greater perceived control than NYOP ($M_{NYOP=}$ 3.57, p < .01), and posted prices ($M_{PostedPrice=}$ 2.53, p < .001). Hence, H1 is supported.

In the test of H2, the results show a significant difference between the groups (F (1,124) = 29.12, p < .001). PWYW ($M_{PWYW=}$ 4.49) generated greater levels of satisfaction than NYOP ($M_{NYOP=}$ 3.55, p < .001), and posted prices ($M_{PostedPrice=}$ 2.58, p < .001), while NYOP generated higher levels of satisfaction than posted prices (p < .001). Hence, H2 is supported.

To test H3 and H4, the mediation analysis followed the method popularized by Preacher and Hayes (2004). Therefore, a mediation analysis was run using the Macro Process of Hayes (Model 4, 95% CI, 5000 bootstrap samples). In the H3 test, the direct effect of pricing mechanism on satisfaction was significant (*c'*= -.32, t(115) = -2.77, p < .01), and so was the indirect effect of pricing mechanism on satisfaction (*a x b* = .-62), considering a 95% confidence interval excluding zero (-.8781, to -.4009). This confirms that satisfaction with the pricing mechanism works through the mediator (perceived control). However, it is important to notice that because path *c* also had a negative coefficient sign (c= -.34, t(115)= -7.35, p < .001), the model represents a complementary mediation (ZHAO et al., 2010), which suggests that there may exist omitted mediators. Therefore, H3 is supported.

In the test of H4, the direct effect of pricing mechanism on pain of payment was significant (*c'*= .30, t(12) = 2.45, p < .01), and so was the indirect effect of pricing mechanism on pain of payment (*a x b* = .43), considering a 95% confidence interval excluding zero (.2565 to .6370). None of the covariates significantly impact the relation (p > .05). This confirms that pain of payment works through the mediator (perceived control). Because path *c* also had a positive coefficient sign (*c*= .73, t(123)= 6.43, p < .001), the model represents a complementary mediation (ZHAO et al., 2010). Pain of payment and perceived control are inversely related (β= -.64, t(124)= -9.15, R^2= .40, p < .001). Therefore, the higher the perceived control, the lower the pain of payment generated by the pricing mechanism, and vice-versa. Therefore, H4 is confirmed.

3.2 STUDY 2

The purpose of study 2 was to investigate whether consumers willingness to pay in NYOP was higher than in PWYW (H5) and whether the presence (vs. absence) of an external reference price(H6a) decreases consumers' satisfaction, (H6b) increases consumers' pain of payment, and (H6c) increases willingness to pay.

Design and participants. Study 2 has a 2 (Pricing mechanism: PWYW or NYOP) x 2 (External Reference Price: present vs. absent) between-subject, with random assignment design. The value of the external reference price was $116, as determined by previously described pretest. One hundred and fifty five people were recruited on Figure Eight and paid $30 cents of US dollar to participate (61,3% female; average age 40.9 years old).

Procedures. The manipulations of the PWYW and NYOP scenarios were the same as in Study 1. However, participants on the scenarios with external reference price saw an additional information. Participants on the PWYW with external reference price scenario read the following text: "*The ticket usually costs $116 dollars, but you can choose to pay any amount for your ticket",* while participants on the NYOP with external reference price scenario read the following text: "*The ticket usually costs $116 dollars. You can offer to pay any amount for your ticket, but your offer may be refused if your bid is too low".*

Measures.

Manipulation checks.

The manipulations were checked with the same questions used in the first study. Additionally, participants assigned to the scenarios with external reference price saw two additional questions. First, participants indicated their level of agreement with the following statement, on a 5-point Likert scale: "The website informed me how much the ticket usually costs". Then, participants answered how much the ticket usually costs.

Control Variables

The same control variables used in Study 1 were used in this study (i.e., gender, age, level of education, income, involvement with music concerts and how often participants go to music concerts). We tested the effect of the control variables and only found a significant effect of income on willingness to pay, and involvement on satisfaction.

Dependent Variables

The dependent variables were assessed with the same validated scales as in Study 1. The dependent variables were: pain of payment (α= .913), satisfaction (α= .964), and willingness to pay. Willingness to pay was assessed when participants answered how much they would like to pay for the ticket after the manipulation texts. The mediator variable was perceived control (α= .868).

Results

Manipulation checks

The participants correctly perceived that they wanted to pay for the ticket but the website could refuse the bid in the NYOP ($M_{NYOP=}$ 4.80), against the PWYW condition ($M_{PWYW=}$ 1.91; $F(1,153)=346.83$ $p < .0001$). The participants correctly perceived that they wanted to pay for the ticket and the website would not refuse to sell in the PWYW condition ($M_{PWYW=}$ 4.34) against the NYOP condition ($M_{NYOP=}$ 1.53; $F(1,153)= 257.95$, $p< .0001$). Finally, the participants perceived that the website informed how much the ticket usually costs on the external reference price-present condition ($M_{ERP=}$ 4.77) against the external reference price-absent condition ($M_{NoERP=}$ 1.44; $F(1,153)= 667.82$, $p< .0001$), and answered the correct price on the external reference price scenarios (M=116.30). Therefore, the manipulations were successful.

Hypotheses tests

In the test of H5, results show that consumers' willingness to pay on NYOP ($M_{NYOP=}$ 41.11) was significantly higher than in PWYW ($M_{PWYW=}$ 26.00; $F(1,69)=6.97$, $p< .01$). Hence, H5 is confirmed.

A two-way ANOVA confirms the moderating role of the presence of an external reference price on satisfaction (H6a) ($F(3,151)= 9.10$, $p< .0001$). As predicted, consumers' satisfaction was lower when an external reference price was present on the PWYW condition ($M_{NoERP=}$ 4.62 vs. $M_{ERP=}$ 4.11 $p< .05$), as well as in NYOP ($M_{NoERP=}$ 3.86 vs. $M_{ERP=}$ 3.37 $p< .05$). Hence, H6a is confirmed.

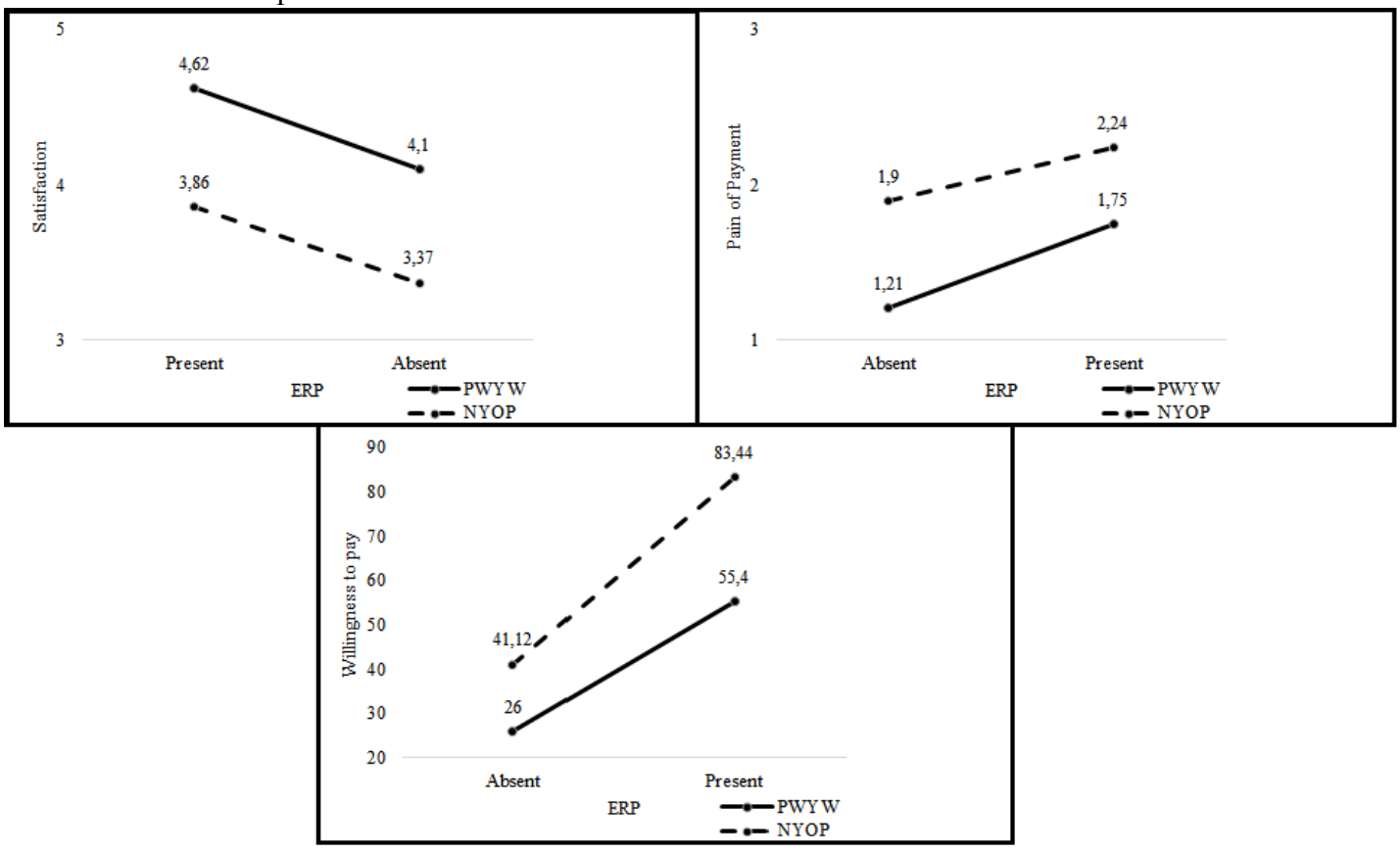
The test of H6b confirms the moderating role of the presence of an external reference price on pain of payment ($F(3,151)=10.336$, $p< .0001$). As predicted, consumers' pain of payment was higher when an external reference price was present on the PWYW condition ($M_{NoERP=}$ 1.21 vs. $M_{ERP=}$ 1.75 $p< .01$), as well as in NYOP ($M_{NoERP=}$ 1.91 vs. $M_{ERP=}$ 2.24 $p< .05$). Hence, H6b is confirmed.

The test of H6c confirms the moderating role of the presence of an external reference price on willingness to pay ($F(3,151)= 31.81$, $p< .0001$). As predicted, consumers' willingness to pay was higher when an external reference price was present on the PWYW condition

($M_{NoERP=}$ 26.00 vs. $M_{ERP=}$ 55.40 p< .0001), as well as in NYOP ($M_{NoERP=}$ 41.12 vs. $M_{ERP=}$ 83.44 p< .0001). Hence, H6c is confirmed.

The results of this study offer additional support for the predictions of H3 and H4, as perceived control mediated the relation between satisfaction and pain of payment. In the test of H3, the direct effect of pricing mechanism on satisfaction was significant (*c'*= -.26, t(2,152) = -2.62, p < .01), and so was the indirect effect of pricing mechanism on satisfaction (*a x b* = -.42), considering a 95% confidence interval excluding zero (-.6943 to -.1623). The covariates did not impact the mediation (p>.05). The test of H3 on this study also confirms that the mediation is complementary (*c*= -.42, t(1,153)= -4.12, p < .001). In the test of H4, the direct effect of pricing mechanism on pain of payment was significant (*c'*= .26, t(2,152) = 2.7, p < .001), and so was the indirect effect of pricing mechanism on pain of payment (*a x b* = .27), considering a 95% confidence interval excluding zero (.1031 to .4384). The covariates did not impact the mediation (p>.05). The test of H4 on this study also confirms that the mediation is complementary (*c*= .53, t(1,153)= 4.16, p < .001).

Figure 2. Means of dependent variables according to the presence or absence of an external reference price



4 DISCUSSIONS AND CONCLUSIONS

Participative pricing mechanisms have gained popularity in retailing, especially in firms that carry high fixed costs, low variable costs and fluctuating demands, such as restaurants, airlines, hotels, and entertainment, for example (KRÄMER et al., 2017). This paper empirically compared how two participative pricing mechanisms (i.e. PWYW and NYOP) influence consumers' behavioral intentions. The results show that PWYW leads to higher satisfaction and lower pain of payment than NYOP and than the traditional posted

prices mechanism, and that this effect is mediated by consumers' perceived control. In addition, consumers' willingness to pay in NYOP are higher than in PWYW. When retailers use an external reference price, satisfaction is negatively affected, and pain of payment and willingness to pay are positively affected.

This study contributes to the pain of payment literature by studying how this variable is influenced by different pricing mechanisms, instead of different payment methods. In addition, it contributes to the satisfaction literature by exploring and comparing the effects of PWYW and NYOP on it. Previous researches of the role of perceived control in pricing mechanisms had only investigated its role in auctions (e.g., CHANDRAN; MORWITZ, 2005), not PWYW and NYOP. Therefore, this research also contributes to the literature by showing that the effects of PWYW and NYOP on satisfaction and pain of payment is mediated by perceived control.

The results of the two experimental studies may help managers design a participative pricing mechanism according to its strategic goals. For instance, if a retailer wishes to create a more pleasant service experience adopting a participative pricing mechanism (e.g., higher satisfaction and lower pain of payment), it should adopt PWYW. However, this pricing mechanism could lead to lower willingness to pay, and is consequently less profitable than NYOP. Therefore, aligned with previous studies (e.g., KRÄMER et al., 2017), PWYW it is more indicated when companies seek to pursue additional benefits, such as word of mouth recommendations, press coverage, or wish to penetrate a new market.

This study has some limitations. First, simulated experiments only show consumers' behavioral intentions, which may differ if the same problem is faced on a real situation. Therefore, it would be interesting to replicate this study in a field situation, where real payments are made. In addition, the context of the studies may also be a limitation. Future studies could also attempt to assess the dependent variables investigated in this study in other contexts (e.g., different product or service categories). Finally, our mediation analysis showed that perceived control does not fully explain the relation between participative pricing mechanisms and satisfaction and pain of payment; therefore, future researches could investigate other mediators that are antecedents of these (and other) variables.

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