EXECUTIVE SUMMARY

Pay what you want (PWYW) is a pricing mechanism where sellers delegate the pricing decision to consumers, who may pay any price they choose for goods and services, including zero. PWYW is increasingly being used in diverse service contexts such as restaurants, hotels and cinemas. The mechanism involves an inherent risk for service providers, as consumers can pay less for the services than with conventional fixed pricing. Yet it also bears the potential for acquiring a larger customer base by addressing new customer segments with a lower willingness to pay.

Applications of PWYW have produced mixed results, with the notable unsuccessful cases of Panera Bread and Lyft, where the companies ultimately ceased PWYW due to poor profitability. Interestingly, whether the consumer payment took place before or after consumption may have been a significant driver of the profitability of the mechanism. While businesses that have implemented PWYW before consumption mostly discontinued the mechanism due to losses or low profitability, businesses that implemented PWYW after consumption continue to use the mechanism and have obtained increasing profits from it.

Building on an uncertainty reduction framework, the authors predict that the time of payment, and its implications for consumer uncertainty, constitutes an important determinant of PWYW profitability for service providers. A large field experiment conducted in conventional and fast-food restaurants provides initial evidence that paying after consumption increases PWYW amounts. A laboratory study then details the underlying psychological process behind payment decisions. Uncertainty regarding the service process or the service outcome lowers the PWYW payments before consumption. An additional field experiment confirms these insights and further shows that PWYW payments after consumption, compared with fixed pricing, boost profitability, primarily due to a higher number of consumers. In other words, implementing PWYW after service consumption increases service capacity utilization, counterbalancing the possible effect of lower individual price contributions.

"In traditional pricing settings, the price set by the seller can serve as a signal of service quality. In PWYW, by definition, the price cannot serve this function. Thus consumers might experience greater uncertainty about service quality, leading them to prefer to pay, on average, lower amounts before their service consumption. However, if the seller uses a PWYW pricing mechanism after their consumption, most of this uncertainty will have been resolved, offering a promising path toward PWYW profitability", states lead author Giampaolo Viglia. This managerial evidence applies to frontline services with a clear before-after uncertainty reduction, such as repair, hair styling, copy-editing and cleaning services. While online service platforms might also increase demand by leveraging PWYW after consumption, the authors advise caution in these domains, as PWYW appears promising when the service entails some form of human connection between the consumer and the provider. However, once consumers have used an online service for free, they may resist any sort of payment, due to the absence of social pressure or embarrassment in offering zero payment.