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The participative pricing method Pay-What-You-Want as

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Abstract

The aim of this paper is to identify how the participative pricing method Pay-What-You-Want (PWYW) can be used to market tourism destinations. Besides, sub-questions should be answered, addressing pricing as an important tool to market products and services, general insights into the participative pricing method Pay-What-You-Want, critical success factors to apply this participating pricing method and finally applications of Pay-What-You-Want in the tourism industry. In the course of the research, three methods were applied: A profound literature review using secondary data sources set the basic research methodology. In addition, studying different Pay-What-You-Want cases facilitated the research process and secured better understanding of the topic and finally, expert interviews among tourism experts, marketing professionals and pricing specialists were conducted to gather a large amount of information. PWYW is an innovative approach, moving away from traditional pricing where the company sets the amount that has to be paid for a certain product or service, towards new participative pricing strategies where the customer names the price. Within this whole research, it soon becomes apparent that Pay-What-You-Want needs to be applied to the individual tourism components to market an entire destination. The more businesses included the more attention can be generated and can consequently make an unknown destination recognized. From a marketing perspective, it can be stated that while flipping over the conventional fixed-price models, the participative pricing method Pay-What-You-Want is a powerful strategy to market tourism destinations as it stretches visibility and reach. Moreover, it benefits individual businesses, as it makes them stand out from the crowd by advertising products and services in a new and innovative way.

Keywords:

Pricing, Pay-What-You -Want, Marketing, Tourism Destinations

Introduction

This research paper discusses the participative pricing method Pay-What-You-Want as a marketing tool and its application to certain tourism components, namely attraction and activity, access, accommodation, amenities and awareness. Thus, the aim of this master thesis is to determine whether this customer-driven pricing approach can be used to market tourism destinations and if so – how?

Background of the Study and Problem Definition

In today's competitive tourism market, destinations are the ones that compete rather than individual firms. However, as much as the success of individual businesses is reliant on the competitiveness of the destination in which they are located, the destination is reliant on the individual businesses' competitiveness. Hence, an appropriate marketing strategy is essential to winning, keeping and expanding the customer base for both the individual tourism businesses and the hosting tourism destination.

Considering the four P's of marketing - product, price, place and promotion - price is the only element that produces revenue rather than costs and can be adapted to new situations in short-term. However, pricing is a sensitive concern that in the customers' understanding, reflects the perceived value of the offering and must deliver a long-term sustainable competitive advantage for the supplier. The goal is to get as many sales as possible, for as much money as possible, from as many potential customers as possible and at the same time maximize customer value. Usually, this involves many marketing experts working out strategies.

PWYW perfectly functions on its own. It is an innovative approach, moving away from traditional pricing where the company sets the amount that has to be paid for a certain product or service, towards new participative pricing strategies where the customer names the price. Best practice examples from different industries show that using this customer-driven pricing technique can actually work and furthermore comprises the positive side effect of increasing reach without destroying profit.

Although literature and single best practice examples using participative pricing strategies are present, academic research puts less emphasis on the implementation and relevance of PWYW in tourism destinations. Therefore, the aim of this research paper is to investigate how this innovative and customer-driven pricing strategy can be used to market tourism destinations which are built on different tourism components. The idea is simple as the tourists only pay what they want to pay, regardless of the price at which the provider wants to sell the product or service. The transition proceeds automatically after the guests set the price. Hence, depending on the individually perceived value of the tourism products or services, visitors can pay exactly what they are willing to pay. Put into a possible destination slogan:

"Pay for your holiday, what you think it is worth."

Research Objectives

The aim of this research paper is to increase the knowledge about the price as a marketing tool in general but most importantly, to gain fundamental information on the participative pricing method PWYW in order to outline its application as a marketing tool for tourism destinations. Professionals from the tourism industry, pricing experts and marketing specialist, as well as best practice cases, back up the theoretical part of this research paper and give valuable insides into the field of investigation. The price setting process serves as a practical presentation guideline for this customer-driven pricing approach PWYW, by exemplifying the theoretical basics, combined with practical expert knowledge and best practice examples.

Research Question

The focus of this research process is expressed by one primary and four subsidiary questions. The following research question serves as a routing construct for this paper:

RQ: How can the participative pricing method Pay-What-You-Want be applied to market tourism destinations?

In order to fulfil the research objectives, topic related theories were chosen to provide a definite direction and lead to specific implications. The proposed theories will be implemented in the following sub-questions:

- Q1: Why is pricing an important tool to market products and services?
- Q2: What is the participative pricing method PWYW?
- Q3: What are critical success factors of PWYW applications?
- Q4: What PWYW applications exist in the field of tourism?

Research Design

In order to guarantee a holistic research, several methods of investigation were applied: A profound literature review using secondary data sources set the basic research methodology. Moreover, studying different PWYW cases facilitated the research process and secured better understanding of the master thesis topic. In addition, expert interviews among tourism experts, marketing professionals and pricing specialists served as a qualitative research approach to gather a relatively large amount of information about the participative pricing method PWYW as a marketing tool for tourism destinations.

Conclusion and Recommendations

Within a tourism destination, it is the individual components that set the base for the customer's travel experience by selling individual products and services. Price has a strong effect on sales and market share. Moreover, it can function as marketing tool where neither expenses nor investments are needed beforehand. The idea is to market an entire destination with the participating pricing strategy PWYW, where the customer decides the price. To make this possible, the marketer first has to evaluate the pricing objectives. In other words, the marketer has to be clear about the pricing objectives that the destination is aiming for in order to target more specifically and moreover, to facilitate the decision-making process for the customer to pick a destination. Taking into consideration that all tourism components depend on the destination and the other way around, it is important to investigate why people come to a certain region and at what time.

As PWYW is an innovative and rather new pricing tool, it fosters curiosity among potential customers. Customarily, it occurs that the lower the price, the higher the demand and as already stated "free" sells faster than expensive. Referring to the price sensitivity of customers, lowering the price increases the ability but also the willingness to pay for a destination's products and services because of better value equation from a customer's point of view. However, PWYW needs to be offered to the right people at the right time to generate constant demand for a tourism destination. Put into a nutshell, PWYW gives exposure, visibility and reach. Moreover, it can benefit individual businesses in terms of marketing and consequently, make an entire destination stand out from the crowd.

Strong marketing thinking often overrules economic thinking, which is exactly why many marketers do not think profit oriented enough anymore. When applying PWYW as an overall pricing strategy to market a destination, it is the individual businesses that need to cover their expenditures such as fixed and variable costs. Hence, it is upon the individual business owners within a destination of whether one can or cannot afford this unpredictable pricing instrument. Moreover, as income for individual businesses

becomes uncertain, it is the marketers' job to estimate whether a destination can afford eventual losses. Therefore, it is suggested by the experts to limit the offer by setting a certain time to operate with PWYW.

As mentioned already, the participative pricing method PWYW can help businesses to stand out from the crowd. However, an analysis of the competition should take place before marketing a destination with the participative and customer-driven pricing tool PWYW, to find out about additional market offerings the potential customers might need. Another positive side effect of PWYW is that it makes it harder for the competition to adjust their prices, which means a competitive advantage for destinations but also for the individual businesses, especially as tourism is a very competitive market.

The more businesses included, the more attention can be generated with this participative pricing method. However, PWYW does not work for every business. Hence, pre-screening the offer might help to select potential cooperation partners to market the destination with PWYW. It can be concluded that any product with low marginal costs can work with PWYW. Moreover, best practice PWYW examples show that marginal costs do not always have to be close to zero for this participative pricing method to work. By analysing different tourism components, it can be determined that attractions and activities are more likely to gain profit as they could benefit from an increased number of visitors, which might result in more revenue. However, other tourism components such as restaurants, cafés and accommodations show potential as well, even though marginal costs are relatively high. In general, customers are fair-minded, which is one of the prerequisites for PWYW to work. Especially social settings encourage a customer's fairness reflex as most are afraid to lose their face in front of others by paying too little money. Tourism destinations include many social settings, most distinctly seen in restaurants and cafés where servants are tipped well when decent service is provided to the respective customer. The wider the range of credible prices, the easier it is to sell products and services under PWYW conditions. As destinations involve many components, with even more sub-categories, prices for products and services can have a wide range. Especially in hospitality and travel services, customers often give more than the usual prices to those who served them well, which proves that tourism products and services can have a wide price range. However, it is the marketers' job to make this price range credible to the customer. As stated already, when using PWYW, a competitive marketplace is needed to stand out from the crowd. Destinations constantly compete within a highly competitive market as a destination can be any place. Hence, it allows the potential customers to compare prices from other destinations, while the participative pricing offer guarantees the best price-performance ratio. Finally, a strong buyer-seller relationship is important as people who interact directly with customers have a great impact on them. Businesses operating in tourism are service-intensive and therefore in direct contact with the customer. Hence, PWYW has high potential to work considering all the social tourism settings such as restaurants and cafés, accommodations or leisure facilities.

From a marketing point of view, PWYW can be concluded as a strategy with high marketing potential for tourism destinations. However, several concerns regarding PWYW were stated. One of these concerns is a wrong communication of the destination positioning as PWYW might put the destination into the low-budget segment. Moreover, experts are concerned that the high awareness factor might raise frequency by increasing the number of sales, but will not increase it enough to generate profit. The biggest fear that arose was the high risk of exploitation of this participative pricing system not just from the customer's perspective but also from a supplier's point of view. Customers might exploit the system by paying too little or even pay nothing for the consumption of the product or service while suppliers might take advantage of people's generosity and try to sell cheap products for a high price to make as much money as possible. Moreover, operational prostitution was stated as one negative side effect of PWYW, as it is a great operational danger when guests have too much influence on the price. Regarding regular customers, experts suspect that they would also be likely to exploit the system and purposely offer lower prices, hoping that prices will have dropped at their next visit. System exploitation might be due to

people's lack of money and time or the fact that they might not be able to value products and services the way they should. Furthermore, responsibility errors might arise with this participative pricing method, as at the end of the day entrepreneurs are committed to make their business payments, otherwise no employee can be paid, no fixed costs covered and slowly but steadily, the company will not have any future prospects. Due to individually operating businesses within a destination, an application bias might arise as well. In other words, different tourism components have dissimilar cost structures, which might challenge the application process of PWYW for a whole destination.

As PWYW is a rather new and innovative pricing approach, its introduction to market a tourism destination could foster immediate awareness by potential customers and make a destination recognized. To raise contiguous demand for the destination, cooperating tourism businesses need to persuade the attracted customer and therefore have to be educated to apply this unusual pricing strategy. To facilitate the training for individual businesses, destination marketers could cluster the most important tourism components and offer PWYW seminars or job trainings for employers and employees. Another possibility is to select showcases within the destination to demonstrate to others that PWYW can actually work and works even better on a larger scale, meaning to operate PWYW in order to market an entire destination. Influencing the customers' willingness to pay can also be learned by following the seven marketing and sales techniques of PWYW. Moreover, it can reduce the risk for individual businesses to lose money with this participative pricing method and might even outbalance some of the stated concerns.

When marketing a destination under PWYW conditions, using a mixture of PWYW and fixed price products or services presents a great possibility to upsell and still demonstrate innovative marketing. For example, a hotel could offer PWYW at its in-house-bar or treatments in the hotel-spa-area while all other prices are fixed. Restaurant could offer PWYW for drinks, while prices for the meals are fixed and tourist attraction could sell tickets via PWYW while their shop sales are based on the fixed prices.

Opportunities that might arise when using the participative pricing strategy to market a tourism destination are, apart from the psychological aspects, that it lowers the barrier to entry, encourages impulse buying, promotes sharing and eventually creates generosity in the customer, as well as the possibility to stretch tourist seasons and exploit capacities. Due to the fact that price is often regarded as an important decision criterion for holiday booking, PWYW might extend the tourism season and enhance weak frequency offers within a destination. Moreover, different tourism components could benefit from an increased number of visitors, for example attractions. High potential for PWYW is also seen in cooperation between different tourism components. For example, potential guests can be offered to visit two attractions for a fixed price while they are permitted to pay what they want for the third attraction entrance. However, mutual strengthening of the economy also bears the challenge that most of the businesses do not interrelate.

PWYW could help to motivate small to medium sized businesses to generate profit for activities that they need to fulfil anyway to operate. As repeatedly mentioned, operating with PWYW might help the destination to stand out from the crowd and moreover gain a competitive advantage. As PWYW is a new and innovative method, especially for touristic purposes, it is a great marketing tool to land in the customer's awareness set by pushing curiosity. Finally, the participative and customer-driven pricing strategy also forces customers to give unadulterated feedback on the products and services they consumed during their stay at a destination. This interesting pricing tool eliminates the upper and lower price cap, which forces customers to give monetary feedback and the seller to accept it. However, it also gives the seller the chance to ask for details about how the customer arrived at the price. In the end, this feedback might help to improve products, services and processes and shows directly how satisfied the customer is with the product or service in monetary terms.

Put into a nutshell it can be stated, that it is the individual components that set the base for the customer's travel experience by selling individual products and services. Hence, for the participative pricing method Pay-What-You-Want to work, it very much depends on the individual firms who need to be courageous enough in order to try this innovative and new pricing tool. Strong marketing thinking often overrules economic thinking and by the end of the day, it is the individual businesses that need to cover their expenditures such as fixed and variable costs. However, PWYW if done the right way can benefit individual businesses in terms of marketing and consequently, make an entire destination stand out from the crowd. Put into core statement, when using the participative pricing method PWYW to market a destination: (1) one has to speculate to accumulate and (2) no risk no reward.

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