LITERATURE ASSESSMENT ON WAYS HOW TO INCREASE THE WILLINGNESS TO PAY AT GERMAN WINE TASTINGS

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"Pay-What-You-Want" is a pricing strategy where buyers pay any desired amount for a given commodity, sometimes including zero. Giving buyers the freedom to pay what they want can be very successful in some situations, because it eliminates many disadvantages of conventional pricing e.g. the fear of whether a product is worth a given set price and the related risk of disappointment. In Germany most often wine tastings are for free despite of the associated costs. However, often visitors feel obliged to buy some bottles of wine even though they are not in favor of this wine. Hence, dissatisfaction might occur. Hence, other strategies have to be developed in order to cover the costs but reducing the risk of dissatisfaction. In this context we want to discuss the possibility to introduce "Pay-What-You-Want" pricing in the German wine business. We will first provide a literature overview. Afterwards we will combine these findings with existing example.
Key words: Pay-what-you-want, wine tasting

Literaturstudie: Methoden zur Steigerung der Kundenakzeptanz von bezahlten Weinkosten in Deutschland. „Pay-What-You-Want" ist ein Preissetzungsmodell, bei dem der Preis allein durch den Käufer festgelegt wird. Der Verkäufer bietet Produkte ohne Preis an, und der Käufer wird gebeten, einen ihm angemessen erscheinenden Preis zu zahlen. Der Käufer hat dabei auch die Möglichkeit, nichts für das Produkt zu bezahlen, d. h. den Preis auf Null zu setzen. Da so den Käufern die Möglichkeit eingeräumt wird, den Preis selbst zu bestimmen, können Nachteile herkömmlicher Preissetzungsstrategien vermieden werden, z. B. die Unzufriedenheit über eine divergierende Einschätzung des Preis-Leistungs-Verhältnisses. In Deutschland sind die meisten Weinverkostungen gratis, obwohl den Winzern Kosten entstehen. Als Resultat fühlen sich die Kunden häufig gezwungen, Wein zu kaufen, obwohl sie diesen nicht schätzen. Dieses Verhalten birgt die Gefahr, dass Unzufriedenheit entsteht. Somit besteht die Notwendigkeit, neue Preissetzungsmechanismen zu entwickeln. In diesem Kontext diskutieren wir, ob „Pay-What-You-Want" in der deutschen Weinwirtschaft einführbar ist. Im ersten Teil des Artikels stellen wir das Ergebnis einer umfangreichen Literaturrecherche vor. Danach werden diese Ergebnisse anhand von Beispielen diskutiert.
Schlagwörter: Pay-what-you-want, Weinverkostung

Many small wineries are increasingly seeking strategies to prosper in an increasingly competitive and consolidated marketplace (Hall and Mitchell, 2008). Difficulties in developing appropriate distribution channels for domestic and international markets, increased competition on the basis of price in an oversupplied market, and the limited infrastructure and marketing capabilities of these wineries constrain many efforts at development (Hall and Treloar, 2008). Indeed, many small wine businesses face difficult decisions with respect to the development of their business strategies simply because they wish to remain relatively small producers and not engage in growth strategies with the increased need for reliance on external capital and the potential for reduced owner control that may bring (Simpson et al., 2004; Hall and Treloar, 2008). In the light of these circumstances, and especially considering the relatively poor economic position of many low production wineries (Anonymous, 2003), many wineries have focused on the development of direct sales to end consumers and wine tourists as a means of gaining greater short and long-term returns from wine sales and adjunct products (accommodation, food, souvenirs) (Hall and Treloar, 2008). Benefits include reduced distribution costs, internal and external marketing opportunities, the creation of relationships with consumers intended to generate product loyalty and long-term sales (Bruwer, 2002; Dodd, 2000; Hall et al., 2000). Nevertheless, for those small wineries that do decide to utilize direct sales and/or tourism as a business strategy one of the most critical issues is whether to charge a tasting fee for entrance to, or tasting at the cellar door. In wine regions with a strongly developed tourism strategy, such as the Napa Valley, "a fee system is firmly entrenched in the wine tourism industry, with wineries normally charging between $US 5 and 10 for tasting" (Gaiter and Brecher, 2002). However, the issue of charging for tasting is an issue of substantial debate in Australia and New Zealand. In New Zealand, a national winery survey conducted in 2003 found that 56.7 percent of wineries did not charge a tasting fee, with another 8.9 percent charging only for groups. Of those who do charge, 63.2 percent refund the charge upon purchase and a further 13.2 percent offer a partial refund (Hall and Christensen, 2004a and 2004b). Accurate statistics do not exist for Australia, although Travers (1999) points out that charging at the cellar door is reasonably widespread, especially in well established wine tourism destinations such as Victoria's Yarra Valley and Western Australia's Margaret River. Clearly, the decision to establish and operate a cellar door facility at a small winery is a significant decision, based on balancing scarce capital and expected return. However, many wineries may be unsure of the benefits and costs of charging for tastings. For example, important issues arise when wineries either transmit confusing messages to the public about their services, or regions offer inconsistency in their product. If a winery is attempting to attract visitors to their cellar door for marketing and public relations purposes, then charging a fee to someone they have encouraged to visit may seem incongruous (Hall and Treloar, 2008). Similarly, if some wineries charge and others do not, visiting tourists may be confused about whether they are a welcome visitor at wineries who do not charge, or an inconvenience, since they are not paying for services at one winery while payment is expected at others. Some wineries take the attitude that, as their wine is a quality product, people should expect to pay for it. In contrast, other wineries believe that wine tasting also serves as a means to educate the market, as well as to get feedback on their wines, and are therefore happy not to charge. While the debate may be confusing for business decision-making, the issue of whether or not they will be charged is also often confusing for the customer (Hall and Treloar, 2008). Travers (1999) points out that tasting fees offer many benefits, including weeding out 'free loaders', covering the cost of tasting, and removing some of the pressure on visitors to actually purchase after tasting. In addition, he concludes that it is reasonable for tourism operations to charge for their services. Nevertheless, as noted by King and Morris (1997), there is no way for a winery to determine who the truly interested visitors and potential purchasers are, and therefore wineries charging for entry and/or tasting may be 'scaring off' legitimate buyers in both, the short and long term. Beverland (1999) found that a tasting fee certainly discouraged people from visiting, although their disinterest was reduced by offering a 'redeemable on purchase' fee structure. Furthermore, his research at wineries in New Zealand also found that the tasting fee was as much of deterrence to those who did not spend at the winery, as it was to those who spent over $100. King and Morris (1997), conducting an investigation among winery visitors in Western Australia, also found that a $ 2 tasting fee could deter up to 36 percent of visitors, 83 percent of whom are regular purchasers of wine. Therefore, this suggests that the winery is effectively turning away a large amount of potential short- and long-term revenue. The above outlined discussion of tasting fees is of high importance for the German wine business because in Germany nearly 20 % of all wine sales are directly done by wine estates. Hence, customers have to be attracted to the wineries. The most often used 'tool' are wine tastings. As a result in most cases wine tastings are for free despite the associated costs. Furthermore, often visitors feel obliged to buy some bottles of wine even though they are not in favor of this wine. Dissatisfaction might occur. Therefore, other strategies have to be developed in order to cover the costs but reducing the risk of dissatisfaction. In this context the aim of our paper is to discuss the possibility to introducing "Pay-What-You-Want" pricing in the German wine business.

LITERATURE OVERVIEW[1]

"Pay-What-You-Want" (PWYW) is a recently emerging pricing scheme in which a good is up for sale and the buyer, should he decide to buy, chooses the price to pay for it (Kim et al., 2013). A famous example, which illustrates its attractiveness to a seller, is the release of the band Radiohead's album "In Rainbows" in 2007, which at the time was highly anticipated. Fans were able to download the album from the band's website for any price they chose, including zero (Kim et al., 2013). Standard economic theory predicts that the rational decision for the buyer would be to pay nothing and get the album for free. However, hundreds of thousands of fans chose to pay a positive amount for the album, and the band in fact profited from this pricing format, making more money than from digital downloads of all their other studio albums combined. So far, PWYW has been applied in several varied areas, such as gastronomy (e.g. Sobo Bistro, Sydney; ‚Wiener Deewan' in Vienna and ‚Lentil as Anything' in Melbourne), hotels (e.g. IBIS Singapore), and music (e.g. Radiohead, Girl Talk) and Soccer clubs (Mantzaris, 2008; Isaac et al., 2010; Riener and Traxler, 2012; Gautier and Klaauw, 2012). In practice, PWYW is implemented either as a short-term or long-term pricing tool. Evidence exists that PWYW persists even in the long run (Kim et al., 2010; Riener and Traxler, 2012). Despite these successful examples there are also PWYW ventures which have not been as successful. For example ‚Terra Bite Lounge' in Seattle returned to a fixed-price scheme after adopting PWYW for a period of time. Giving buyers the freedom to pay what they want can be very successful in some situations, because it eliminates many disadvantages of conventional pricing (Kim et al., 2013). Buyers are attracted by permission to pay whatever they want, for reasons that include eliminating fear of whether a product is worth a given set price and the related risk of disappointment. For sellers it obviates the challenging and sometimes costly task of setting the "right" price. For both, it changes an adversarial conflict into a friendly exchange, and addresses the fact that value perceptions and price sensitivities can vary widely among buyers (Kim et al., 2009; Schons et al., 2014). To explore the reasons behind the apparent success of these PWYW examples, studies have been done using experimental economics, field experiments as well as empirical data. Neoclassical theory predicts that customers take full advantage of the PWYW offer and pay zero prices. However, particularly experimental economics can show that this is not always the case (Forsythe et al., 1994). Experimental research has shown that behavior is influenced not only by monetary calculations but also by social preferences. Participants in such experimental games frequently choose not to maximize their material payoff when social influences are present. For example, recent experimental research on ultimatum games [2] has found that first movers (the proposers) tend to offer more to their counterparts than non-cooperative game theory would predict (Roth, 1995; Fehr and Schmidt, 1999; Bolton, 1991). Empirical results from ultimatum games show that the modal offer is observed to be half the endowment. Researchers interpret this finding as a behavior that conforms to the fairness norm (Roth, 1995; Rabin, 1993). It was also found that responders tend to reject offers that are below 20 % of the endowment, even though this is somewhat irrational because a small amount is still better than nothing. This is interpreted as a reaction of punishment to the unfair offers. A variant of the ultimatum game, the dictator game [3], additionally controls for strategic behavior, as the responders must accept any amount offered by the proposers (Bohnet and Frey, 1999b). Although the offers were lower in the dictator game than in the ultimatum game, on average, proposers still allocated money to the responders, a behavior that was interpreted as altruistic and fair (Andreoni and Miller, 2002; Forsythe et al., 1994; Bolton et al., 1998). In contrast to dictator game results, applications of PWYW pricing have revealed that free-riding is even by far less common when customers receive a product in return: in the studies conducted by Kim et al. (2009), free-riding (in terms of paying a zero price) could not be observed in any of the 1,452 observed transactions. This is in line with observations in the context of self-picking of flowers, where free-riding is also rare (Münch, 2011). The vast majority (over 80 %) of people picking flowers paid for the flowers they took (Wöhler, 2009); however some negative examples exist, too (Hansen, 2003). However, as further research suggests, outcomes are not only affected by altruism and fairness but also by varying conditions in the dictator game. Interestingly, several researchers have found that subjects behaved less selfishly as they varied the degree of social distance between the subject and the experimenter as well as between the subjects (Andreoni and Bernheim, 2009; Hoffman et al., 1994; Hoffman et al., 1996; Bohnet and Frey, 1999a; Charness and Gneezy, 2008). For instance, Hoffman et al. (1994, 1996) showed that the dictator game was sensitive to whether or not the participants believed that

[1] This chapter is based on comprehensive literature reviews conducted by Kahsay and Samahita (2014); Kim et al (2013); Schons et al (2014).

[2] In the ultimatum game, two participants interact in allocating an endowment. The proposer suggests that a fixed amount of the endowment be allocated to the responder, with the balance of the endowment retained by the proposer. The responder can then either accept or reject the proposal. If the responder decides to reject, neither of them receives anything.

[3] In the dictator game, the first player, "the proposer", determines an allocation (split) of some endowment (such as a cash prize). The second player, "the responder", simply receives the remainder of the endowment left by the proposer. The responder's role is entirely passive (the responder has no strategic input into the outcome of the game). As a result, the dictator game is not formally a proper game (as the term is used in game theory). To be a proper game, every player's outcome must depend on the actions of at least one other's. Since the proposer's outcome depends only on his own actions, this situation is one of decision theory. Despite this formal point, the dictator game is used in the game theory literature as a degenerate game. This game has been used to test the homo economicus model of individual behavior: if individuals were only concerned with their own economic well being, proposers (acting as dictators) would allocate the entire good to them and give nothing to the responder (Hoffmann et al 1996; Kahneman et al 1986).

their behavior was being monitored by the experimenter. They found that selfishness increased with anonymity. Bohnet and Frey (1999a and b) varied the degree of social distance between the dictator and recipient and found a higher allocation when the dictator was provided with more information about the recipient's identity, leading to a more personal interaction. Another important condition refers to the stake size. Some experimental game studies have also shown that an increase in stakes leads to a less-than-proportionate increase in the money allocation. The evidence in the literature is, however, only partially consistent. Findings in this area are still controversial and require deeper analysis (Kim et al., 2013). Different theoretical approaches can be used to provide a psychological reasoning behind these surprising results: Heyman and Ariely (2004) for instance derive two categories of human interactions economic exchange relationships and social exchange relationships. Whereas economic exchange relationships are guided by market norms, social exchange relationships are guided by social norms of cooperation, reciprocity and fair distribution. PWYW dissolves the typical market exchange relationship between buyers and sellers and transforms the relationship into a situation where behavior is guided by market as well as social norms. Sellers who implement the PWYW pricing mechanism demonstrate procedural fairness (Xia et al., 2004) by offering the customer the opportunity to determine the price. This operational benevolence signals sellers' fiduciary motivation "to place the customer's interest ahead of self-interest"(Sirdeshmukh et al., 2002), helping to prime customers' preferences to act fairly (Maxwell et al., 1999). If a customer decides to free-ride by not paying for the products he received, this violates social norms of a fair exchange. Based on the theory of exchange relationships (Heyman and Ariely, 2004) and zero pricing (Shampanier et al., 2007; Nicolau, 2012; Palmeira, 2011), Kim et al. (2009) and Regner and Barria (2009) showed that paying nothing may result in distress and social disapproval by other people as the relationship between buyer and seller is less governed by market exchange norms and more by social norms, such as norms of distribution or norms of reciprocity. Kim et al. (2009) further showed that social preferences such as fairness and reference prices play a significant role under PWYW conditions. In the context of customers' price decisions in PWYW for the first purchase customers set as price equivalent to the dictator game endowment, which Schones (2013) calls the "range of fair prices." This range assumes that customers set prices paid in relation to subjective upper (not paying too much) and lower (not paying too little) limits of fair prices (Carter and Curry, 2010). Pricing research has widely recognized that customers evaluate the adequacy of so-called seller-supplied prices on the basis of mental references (Monroe, 1990). These so-called internal reference prices (IRP) are memory-based and provide price information that customers apply as benchmarks in subsequent price encounters (Kalyanaram and Winer, 1995). IRPs also serve as anchors when determining prices in participative pricing (Kim et al., 2009). As IRPs are strongly related to customers' willingness to pay (Northcraft and Neale, 1987), Schons (2013) posits that IRPs mark the upper limit of customers PWYW price range. Turning to the lower limit of prices to pay, the PWYW rules would allow customers to pay zero prices. In line with the past literature on the dictator game as well as on PWYW applications, Schons et al. (2014) argue that most customers refrain from exploiting PWYW to the full extent. Further, customers are aware that paying zero prices induces a loss for the seller, which makes it impossible to sustain the PWYW offer. A lasting PWYW offer, however, allows customers to regularly pay below conventional market price. Consequently, frequent shoppers in particular should be interested in a sustained PWYW offer and actually consider sellers outcomes when determining the price to pay. Concerning the precise value that marks customers lower price limit, past research shows that customers derive ideas of fair prices on the basis of cost estimates (Sinha and Batra, 1999). The principle of dual entitlement (Kahneman et al., 1986) suggests that customers accept sellers to use cost-related arguments to justify prices (Dickson and Kalapurakal, 1994). Further, Kim et al. (2010) argue that the intention to return to the focal seller is another incentive to pay a price that exceeds the estimated costs: By paying a price below the estimated costs, the buyer might fear that the PWYW offer will not be sustained in the long run. Thus, cost estimates constitute the lower limit of the range of fair prices. In summary, a PWYW pricing scheme does attract non-zero payments. While as expected some PWYW consumers under-pay, there are also situations in which the average price is in fact higher compared to other fixed-price schemes, and the purchase rate lower. In some cases PWYW results in an increase in the seller's revenues.

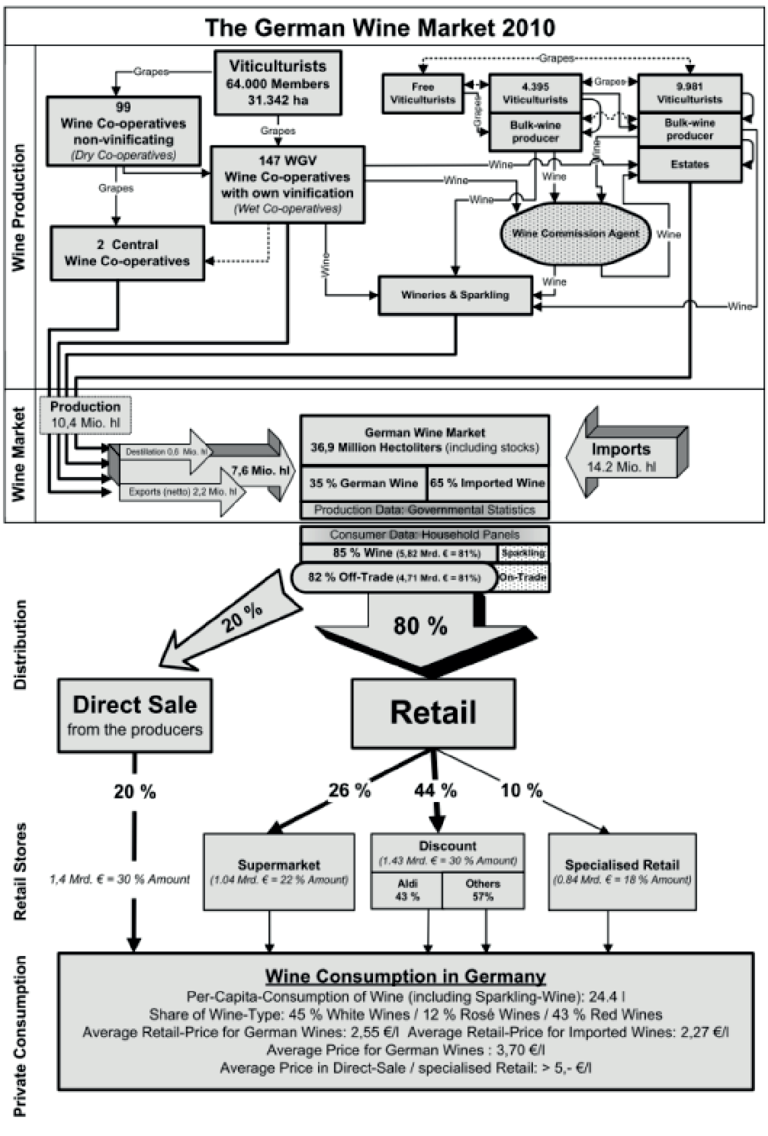
EXCURSUS: CASE STUDY 'PICK-YOUR-OWN-CUT-FLOWERS'

PWYW was (unknowingly) introduced to the agriculture sector a long time ago. „Classical examples" are the small potato and cabbage stalls which one can find in rural areas in Germany. Farmers display different vegetables at an unattended stall at a street and buyers just take a product and pay what is named (as a reference price). Another example is 'Pick-Your-Own-Flowers'. In this case, people go straight to the flower nurseries and pick their own flowers. Afterwards they go to an unattended cash desk and pay. There is either a notice board displaying the prices which should be paid per flower or people just pay the amount they want to pay for the picked flowers. The following case shows that this marketing channel is quite profitable. At the beginning of the 1990s, *blumen bär GmbH* started its first pick-your-own-flower field (gladioli and sunflowers) near the German town Bad Krozingen. *blumen bär* borrowed the idea from the Swiss Hansruedi Brunner, who was the first person to start a pick-your-own-flower field. Initially *blumen bär GmbH* started with just one flower nursery, but today cultivates about 30 fields covering a total of about 20 hectares. Additionally, more than 10 years ago *blumen bär GmbH* set up a professional cultivation advice service for interested farmers convinced that pick-your-own-flowers is an important niche market in the agricultural sector. Today, *blumen bär GmbH* works together with around 100 farmers in Germany, Austria, France, Denmark and Belgium (BLUMEN BÄR, 2013; MENTZ, 2005).

DISCUSSION AND CONCLUSION

Our literature review on Pay-What-You-Want has shown that several factors have a strong impact on this price setting mechanism. These are:

- Personal factors such as social background, aducation, income, self-perception as well as price sensitiveness;
- Attitude and values such as sense of fairness and justice, altruism, reciprocity, loyalty as well as social norms and pressure;
- Product related factors such as brand/reputation, information asymmetries, refer-



ence prices, moment/situation of payment, and anonymity at moment of the payment as well as satisfaction with the product/service.

Regarding the personal factors that are connected with wine tasting we argue that in general wine consumers dispose over an above average education and income. Often wine consumers are situated in the upper-middle or upper class having good jobs. Such persons have a high self-perception and want to be perceived as well-educated and generous. In line with this argument we think that even though the majority of wine is bought in discount or supermarket outlets in Germany (Fig. 1), persons who are intentionally driving to a wine tasting at a wine estate are generally not so price sensitive. Therefore, they dispose over a quite high willingness to pay at this moment. Overall, we argue that the mentioned personal factors are suitable for trying PWYW.

Regarding the attitude and values of persons who are participating in wine tastings in Germany, people who live in winegrowing areas are the main visitors of wine tastings of wine estates, and have know them for a long time. Thus, a certain degree of loyalty evolves over time. In general the setting of tastings (at least in Germany) is arranged in such a way that a person from the estate (often the owner or someone from his family) offers his guest some wines and comments on them for his guests. Hence, even during first time experiences a feeling of personal closeness emerges and loyal behavior might result. Additionally, the setting also has positive influence on the perceived reciprocity as well as fairness and justice. Additionally most often wine tastings are conducted as a part of a family excursion/journey or a trip with friends. Thus, wine tastings are seldomly conducted by single persons, but rather in larger groups. Due to this setting we argue that people perceive rather high social pressure. As a result people often feel obliged to buy at least a bottle of wine; whether they like it or not. Overall, we conclude that the attitudes and values connected to wine tasting would affect PWYW positively. Regarding the product related factors we argue that particularly persons who are willing to drive to a wine estate consider themselves as wine lovers or enthusiasts. Hence often they dispose of a good wine knowledge and hence, information asymmetries are rather low. Further more these persons have a good knowledge about the reputation of the wine estate and in general about wine prices. Because of the emerging closeness, the 'event' character of the wine tasting as well as the overall positive basic mood most people have, often people are rather satisfied with the wines they taste. However, as in most countries wine tastings are free of charge, knowledge of specific reference prices is mostly not given. However, as shown in wine regions such as Napa Valley where fees are normal, reference prices would exist. Overall, we conclude that again the discussed factors are rather in favor of PWYW.

Thus, all in all we think that PWYW is feasible. To our understanding PWYW is quite attractive to wine estates as it could help to overcome cognitive dissonances of persons who do not like the wine, but feel obliged to buy at least a bottle. Hence, overall it might lower the barrier to try a new wine estate and new customers might be attracted. Furthermore, it might provide the opportunity to cover the costs of wine tastings.

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Received July, 9th, 2014