Lecture 7: “Pay as You Wish” Pricing

“If it’s good enough, people will put a penny in the pot.”
Chris Hufford, manager, Radiohead
Radiohead Model

On October 9, 2007, the English alternative rock band Radiohead began an experiment: Instead of pricing its music conventional way, the band would let its fans pay whatever they wanted for a download (10 songs album *In Rainbows*). At the checkout box in the website appeared the message “It’s up to you.”

The decision to leave pricing to its fans came after years of frustration with traditional distribution.

Traditionalists who saw “pay as you wish” or what the English call “honor box” payment, as capitulation to the pirates - the beginning of another chapter in the decline of the music business.
Radiohead won its bet

More than 1.8M people downloaded the album, and although 60% did not pay, 40% pay, which was enough to make the album a success for Radiohead.

The customers paid $2.26 per album on average. In terms of digital income this made more money than all other Radiohead albums put together. Some fans paid even more than for a conventional album: $20-$30 or more.
Why Pay More?

At the first glance, “pay as you wish” pricing doesn’t seem to make much sense: Why would anyone pay something for a product if they had the choice to pay nothing? This looks a fantasy. Some people said – good idea for a song, maybe, but not necessarily for a purchasing system.

In certain circumstances, however, “pay as you wish” can be very successful.

- For decades, theaters in US and England have offered “pay what you can” performances on certain nights.
- Several restaurants and cafes (World Café in salt Lake City, Utah) across the US operate on a system where customers determine prices. It appears that World Café is still thriving business, with about 5% profit margin, not out of line with the 4%-6% profit margins typical of small restaurants.
“Pay as you wish” is less impractical as it sounds

It eliminates many of disadvantages of set pricing:

1. For the seller set pricing requires figuring out what the price should be: What is this product worth to my customer? What price will enable me to make the most profit? - A trade-off always occurs between price and volume.

2. For buyers, set pricing also requires answering some difficult questions: How much is this product really worth? Is the price I see on the box is the right price? Could they get a better price somewhere else?

Pay as you wish sidesteps all these issues. For the seller (a fulfillment dream): s/he get the best offer from every possible buyer, with no chances that the buyer will leave feeling that he overpaid.
“Pay as you wish” it’s even making some inroads into academia

One Columbia marketing professor (Noel Capon) recently experimented with “pay as you wish” pricing for his new textbook.

1. Instead of working with the conventional publisher, Capon copied the Radiohead model for his new marketing book, and allow students free online access; but free only online.

2. Students whose budget permitted could buy a printed version for $45 or download a pdf for $25.

This capability to structure multiple tiers of demand for the same product is an important feature of “pay as you wish” pricing.
Five key qualities of a successful “pay as you wish” pricing program

1. A product with a low marginal cost
2. A fair-minded customer
3. A product that can be sold credibly at a wide range of prices
4. A strong relationship between customer and seller
5. A very competitive market place
A product with a low marginal cost

- Software, music have low marginal cost (another copy) but high fixed costs – good candidates for “pay as you wish”.

- A dealership cannot sell a car on a ‘pay as you wish” basis.

- Grocery stores would also not be good bets because most cost are marginal production costs.
A Fair-Minded Customer

In the case of Radiohead, the success of *In Rainbows* relied on the fair-mindedness of the dedicated fans.

Radiohead fans are not alone in being fair-minded. Richard Thaler, a behavioral economist professor from University of Chicago, argues that people often respond according to how they are treated. Many researchers have discovered that people tend to reciprocate “kindness with kindness, cooperation with cooperation, hostility with hostility” Thaler says.

“Pay as you wish” sellers seem to try to invoke this sense of fairness in their customers. For example, Radiohead forced buyers to enter an amount they wanted to pay before download. Potential freeloaders had to enter £0 if they wanted to pay nothing. That action could trigger the fairness reflex: Is it fair of me to not pay anything for someone else’s labor?
A product that can be sold credibly at a wide range of prices

The success of Radiohead lies on the fact that some people care about them more than others.

If the product’s perceived value doesn't vary much, this pricing method is not profitable. It is important that people don’t know the underlying cost structure.

A wide distribution of willingness to pay also makes it more profitable to charge different prices from different customers. Pay as you wish enables the seller to achieve price discrimination tailored to individual customers.
After people have established a relationship, whether one-side with a group as Radiohead or a more mutual with a salesperson. They often feel a need to reciprocate their kindness.

Many business with conventional pricing have incorporated this tendency into their customer service (Nordstrom, Wal-Mart). The aim is not only to encourage loyalty but also to discourage theft.

The same principle works in “pay as you wish” – the decision to leave anything is voluntary act. If a waiter was kind and helpful, it’s difficult to walk away without tipping, although dinners are not obligated to leave anything (Europe).
A very competitive marketplace

The music industry is very competitive, not only because the number of bands that compete on young fans devotion but because of piracy that tempts those young fans not to pay anything for songs.

In a very competitive marketplace “pay as you wish” may be an effective way for competing firms to avoid ruinous price competition. When firms do not set prices they cannot compete on prices!
Conclusion

“Pay as you wish” pricing serves as a good way not only to transfer goods and services, but also to build a stronger sense of community.

As the collective wisdom of many cultures suggests –from the English proverb that “the giving hand, gets” to the Chinese injunction that “if somebody gives you one drop of benefit, you should repay it with a spring of kindness.”

Thus, it’s possible that “pay as you wish” may sometimes be not only a convenient process for exchanging goods and services, but also an elemental way in which communities are built or strengthened.
Question 8

More examples where “pay as you wish” pricing can be or it is implemented
Lecture 8: Why the Best Things in Life Are Free

*We have to look at today’s economy and say, ‘What is it that’s really scarce in the Internet economy?’ And the answer is attention.*

Hal Varian, Chief Economist of Google and Professor at UC Berkeley
Imagine yourself you are the marketing manager of a diversified services company.

Thanks to advanced technology your company can deliver:

- information in moment that once have taken thousands of people and thousands of hours to research, including the content of millions of books and scholarly papers;
- make easy for people to organize their photos;
- translate documents to and from 40 different languages;
- send email;
- watch bits of virtually any film or TV show they can remember;
- post their own videos to entire word to see;
- you have even made it possible for people to look at their own backyard from space;

The trillion dollar question: *How much should you charge for all this?*

Taken together, the value of the whole suite would be thousands of dollars, if not, *priceless* (Visa says).
Priceless is the price Google has chosen

- Google.com – is absolutely free

- Why does Google stick with this model?
  - Because Sergey Brinn (co-founder that was born in old Soviet Union)?
  - Because some of early Internet developers said that information needs to be free?

The real reason becomes apparent after a visit to Google’s headquarters at Mountain View, California.
لجיו גילה

לגייט יותר

נمدارים, קי המנהלים

chers הסלולר

פטודקטיבים

לתהיה צמו

רב יותר

בטבורה

לעבים טוב

יתר

ולחבי

הכוסות

נוספות

לחברה.
The more value Google gives away, the more it seems to get in return.

Google נטן עם בקנת 미דה גדול יوتر: כל ש_Get
יותר עִר, יותר נראת שהוא מבהל בתםורא.

כמו העבדים המפונקים, ושתחמשי הדברים התועים שנותNOP הלם ע“, זנומ ותשומת אלה שים
מקדימים.

אמומת שלוחם יוצר קהל יקר מאוז עבומ גונל, אושר מוכרות
את תשומת הלב שללחם למפרשים, אושר מחוים את הבד
(Second side of Google’s)
primary market).
Gordon Gekko, the evil *Wall Street* movie –”Money Never Sleeps” says

*free is good – free works*

These days, the market values Google at about $106 billion – even though probably 99% of its customers never pay a dime. It’s a *remarkable number* especially considering how many businesses floundered in 2008 and early 2009.

But how?

“Simple, advertising” – is more complicated.

- On any given day, 32% of Internet users use Google – 500M people.

олosophic, prof. gila fruchter, 2010
Google advertising clients get their own freebies

מפרסמי גוגל,民办 שלם משلزم עבורה ארוכות שיאן להזעיג, כי שה קודה מבגדה
רגילה של תור התחשבות, היא לא ארוכות שלוש יותר ממחיר שוק
חיטול, היות גוגל קובש עלות של כל מילת פתק בغضب מכרז.
Home of the Free

Google’s situation is special but not unique.

יום "ביןום" הם אסטרטגיות פורחות.
Question 9

Can you give more examples of freebies?
Home of the Free – (more examples)

Meshutam shimims b’asestariguan chinom levona v’lishmor at besim halakhot.

Meshutamim b’asestariguan chinom levonat v’lishmor at besim halakhot.

2. Yoda (Shna Rashesod chinom)
3. Miniy leitenu (Hodesh chinom)

Komok, ain aerokhot chinom, aliy sh tromfesem rehem, abel baspo shel dere.

Minisho meshala.

Prof. Gila Fruchter
In technical terms, the free economy is based on:

- **Two-side market**
The seller has 2 kinds of customers and wouldn’t have a business without both sets.

  A classic example: Ladies’ Night at bar (charges man for the drink and serve women for free)

- **The decline in the marginal cost of information**

1. כמעט 1.6 ביליון משתמשים באתרים בים תקן ובאüstü קובע זה מאפיין לינגואה למאות
   מיליארדים בflammatory אתול שפעוט לקח להגיעה לאלפיים побר.

2. היקולט של משתמשים לקוח במימר יש השפעה על העלויות
   (TV-וובבים מספקת את הסרטוניום (שחלקים בנבום מ-YouTube)
   וששתנטש בכתבים הובלים CNN

3. אתרי רשתות הזריתמדו צוTextNode של יותר מ-3000 מביתב
   Huffington Post מוצף בכתבות של יותר מ-3000 ממצדים

Prof. Gila Fruchter
משתבר כראוי שיפור בדרישה למוצר חדש של המוצרcomed בפשטיין

확יק באמצעות MIT
ערכו מחקר כדי להזין ולמדוד את % אשיפה של חלב

دبיממחים:
המ诮לו 60 אשימים בלחור
בין קלוייםunami של הרשים עברה 2c
ליבי לקצורת שוקולד עברה 27c Ferrero עברה ולא לקצורת שלום.
45% הרשים, Ferrero בחרו 40%..

כאשר המหลายๆ ירדו בפסננט –
רק 40% בחרו הרשים

אבן כاصر מחורי ירדו ב- 2c Ferrero 10% בחרו הרשים 90%.

כאשר השיקה את ההצבת של משולש חינמי באינרוфа, אר שחה לכלול צורת Amazon
בכשופת.

ה שנית: בורב המديمقים הדמות על ביאופ ירדים, למשוע צורת.

Prof. Gila Fruchter
Live Free or Die?

- For Britannica the fight against a product that is cheaper and better is impossible.

Encyclopedia Britannica vs. Wikipedia

Freebies

- A variation on the famous Gillette razor blade strategy (Two-Part Tariff with free fixed fee)
- This model is well suited to software as switching cost to change system is high.
- Some open-source software companies give away the software but charge for support.

two-side market of Google

Prof. Gila Fruchter
Live Free or Die? -cont

- You can’t fight free with free.
  - Example: newspaper industry.

Newspapers will need to change their product. To personalize both content and time of delivery.

- A good example is the story of some department store. People stopped purchase at some departments but did not stopped purchase, they even purchase more but in other places, cheaper, more quality, online.

אסטרטגיה בחנות ספרים:

Prof. Gila Fruchter
Still No Free Lunch

Free is a powerful strategy but is not magic.

There is no such thing as free lunch,

- unless someone else picks up the tab (two-side market)

- or the customer pays later for a more expensive dinner (lock customers into a particular design).
מדיצין פנימי - סיכון

מקסיי, שומעה על כל קיימ
מקסיי את עמידה
T.V.

חובביONS - ממעון: חסד חינים / כללית מוסלה: חסד חינים
מקביוןhausen: חסד במעון משעון הרברгазט

03-5282085

חובביONS דרגון עידא
נתף 25,72,126,235 מרצדס של בוק
ב ча依據א 62
ב ча依據א מרכז
ב ча依據א מאב
ב ча依據א הפק
ב ча依據א הבקר
ב ча依據א הבקר
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