



**SCHOOL OF ECONOMICS
AND MANAGEMENT**
Lund University

Name your price

-a study of a pricing strategy

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Course: FEKP01
Major: Marketing
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Swedish abstract

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Författare: Persson, Martin – Wester, Henrik

Handledare: Carlman, Lars

Nyckelord: name-your-price, pricing strategy, opportunist, administrative man, rationale

Syfte: Sätta upp ett ramverk för appliceringen av en "name-your-price" prisstrategi, som beskriver köpprocessen för kunden och miljön där transaktionen sker. Därefter testa den på fem stycken konstruerade fall. Ingen hypotesprövning kommer att genomföras utan detta lämnas åt framtida forskning inom ämnet.

Metod: En teoretisk ansats där den sammansatta modellen kommer att testas mot de fem fallen. De kommer att användas för att analysera förutsättningarna och vad som bör vara essentiellt i köpprocessen i de olika fallen.

Teoretiska perspektiv: Avtalsrätt, Beslutsteori, CRM, Kulturella skillnader, Marknadsföring, Organisations teori, Prissättning, Psykologi och verkliga fall.

Empirisk grund: Modellen applicerades på fem konstruerade fall med olika karaktär, både gällande miljöförutsättningarna och vad som bör betänkas i köpprocessen. Empirin visade på exempel på produkter och marknader där strategin bör kunna appliceras, och där det var olämpligt. Ingen insamlad data användes, men den följande analysen av de fem fallen genomfördes kvalitativt av författarna och deras nutidsperspektiv.

Slutsats: NYP är ej lämplig för alla produkter och marknader. Opportunism kommer att vara ett centralt hot för en NYP strategi. En vara av icke-rivaliserande karaktär är att föredra liksom en vara med låg marginalnytta och andrahandsvärde. Slutligen, en hög trovärdighet var viktigt i alla fallen vid applicerandet av en NYP strategi.

Abstract

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Authors: Persson, Martin – Wester, Henrik

Advisor: Carlman, Lars

Keywords: name-your-price, pricing strategy, opportunism, administrative man, rationale

Purpose: Set up a framework for the application of a name-your-price pricing strategy, which describes the purchasing process of the customer and the environment where the transaction takes place, and test it on five fictitious cases. No hypothesis testing will be conducted but left for future research.

Methodology: A theoretical approach with a test of the compiled model on five fictitious cases will be used to analyze the prerequisites of each case and what to focus on in the different purchasing processes of each setting.

Theoretical perspectives: Contract law, CRM, Cultural differences, Game theory, Organizational theory, Marketing, Pricing, Psychology and Real cases

Empirical foundation: The model was applied on five fictitious cases with completely different settings, both for environmental prerequisites, and what to consider in the purchasing process. The empirics presented examples of what kind of goods and markets were suitable for a NYP strategy, and which were inappropriate. No real data was used for the empirics, but the subsequent analysis was qualitatively conducted by the authors and their views of the world today, applied on the fictitious cases.

Conclusions: NYP is not suitable for all types of goods and markets. Opportunism will be the main concern for a NYP strategy. A good of non-rival character with a vast market is preferred, low marginal utility and second-hand value is preferable as well, and credibility is vital when applying the strategy.

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Henrik Wester

Martin Persson

Dedicated to
Freja
Edvin & Linnea

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1. Introduction

An industry in distress was the prerequisite for the spring of a peculiar pricing strategy, very different from the classic economic ideas of how to set the price of a product. This introductory chapter will provide the background to this strategy, present the definition, limitations, and most importantly the research objective and purpose of this thesis.

1.1 Background

In recent years, an increased number of software tools for supplying, sharing and downloading information via the internet have become highly accessible to everyone with an ethernet connection. This technological development has brought new possibilities as well as threats to economic actors, and one of the industries which is now facing a paradigm shift due to this software evolution is the music industry.

Today, illegal downloads of songs on the internet represents a market of 1.6 billion intellectual property rights each month (Hampp, 2008). This has contributed to that the American market for CDs has diminished by seven per cent each year since its peak in 1999 (Mandel & Sinha, 2008).

The talk among industry players has mostly regarded taking legal actions against the downloaders (Queenan, 2007) and changing public attitudes so that downloading will be perceived as stealing, even in the end consumers' square framed eyes. But some industry players have seen an opportunity to make money from this paradigm shift, instead of reluctance. Different approaches have been tried to regain access to the end consumers' wallets yet again by digital subscriptions, where the customers pay an annual or monthly fee to gain access to otherwise restricted exclusive material through the artist's homepage (Hansson, 2008). Alternatively, releasing the album on the internet for free in order for it to promote merchandise and concert ticket sales, or getting royalties from license deals for lyrics on t-shirts et cetera (Queenan, 2007).

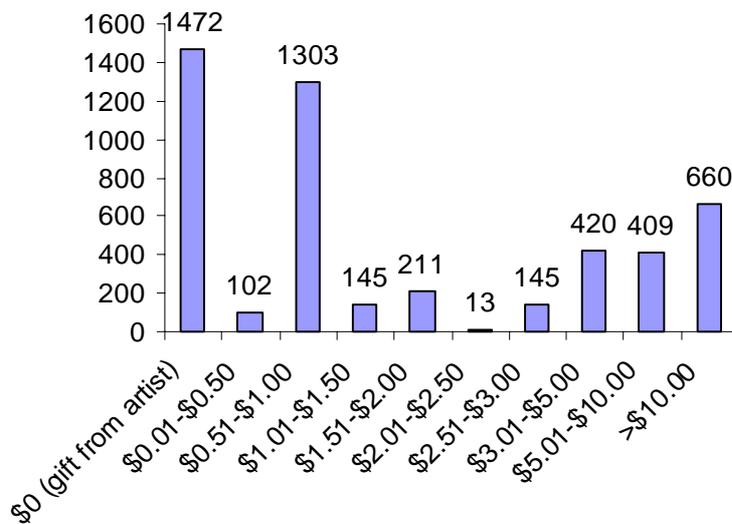
One strategy which has caught the attention of marketers around the globe is called the *name-your-price strategy* [NYP] where customers can pay what they think the good is worth,

ranging from nothing to an infinite amount of monetary units. The pricing strategy bears reminiscence to where the music industry started off; with the buskers, who received donations for their musical contributions from the passing audience.

Today, alternative rock band Radiohead is one of the pioneering bands who tried out this pricing strategy for the digital release of their latest album “In rainbows”, which generated an estimated \$1.2 million downloads averaging \$8 per download, according to Gigwise.com, citing a source close to the band (Hardesty, 2008). Billboard estimated 400.000 downloads at the same price average, and ComScore, a consumer research company from Reston, VA, claimed “a significant percentage” of 1.2 million visitors to Radiohead’s webpage the first 29 days downloaded the album (*ibid.*). The band itself has not presented any figures but the band’s manager dispatched Gigwise.com’s figures as “exaggerated” and ComScores research as “wholly inaccurate” (*ibid.*). One thing is confirmed by the band though; In Rainbows has generated more income from digital downloads compared to their previous albums all together (Byrne, 2007). More bands have followed suit and released their albums digitally online; hence cutting costs by releasing the album themselves but with uncertain revenues due to a lack of marketing backup from record labels (Leonard, 2008).

However, Radiohead was not the first economic actor to implement this strategy; Canadian singer-songwriter Issa, formerly known as Jane Siberry, adopted the NYP strategy about two years earlier than Radiohead did (Hardesty, 2008). Issa’s conceptual homepage *Sheeba music*, <http://www.sheeba.ca>, offers music to customers from her own and three other artists’ catalogues on the NYP basis. Download statistics from Issa’s online store called *Sheeba spirit store* are presented below (*table 1*):

Table 1 - Online statistics from Sheeba spirit store



The statistics cover the period February 3rd, 2005 to January 23rd, 2008. Except from the 1472 customers who selected the “gift from artist” alternative, another 4003 customers selected an option called pay later, which 130 of these actually did.

As can be seen in the table (table 1), twenty per cent of the songs are downloaded for a monetary contribution of nothing (designated *gift from artist*), and the average paying customer pays \$1.25 per download which is \$.26 higher than the industry standard price for legal downloads, set by iTunes, which is \$.99 (Blockstedt, Kauffman & Riggins, 2005).

Further, a restaurant in Salt Lake City; One World Café, has been selling organic food on a NYP strategy for the past four years. The business endeavor generated revenues of \$350,000 in the fiscal year 2007, at a five per cent profit margin. The café has been profitable since 2005 with average customer payments of \$10 (Flandez, 2008). Other minor projects have also managed to stay afloat on this strategy (*ibid.*).

These cases all indicate that there is a willingness among the customers to pay for a good that is provided for free, and this is the mainstay of the NYP strategy.

1.2 What is a price?

From a classical economic perspective, a price is the agreed counteraction from a customer in order to receive a transaction of a predetermined good or service from a supplier. This perception of a price does not consider opportunity cost or the value creation in any kind, just the required counteraction for a delivery, and in a market of perfect competition the price balances supply and demand (Bishop, 2004). However, something interesting happens when

the customer himself is free to decide what the good is worth; since there is a setting of total transactional freedom for the buyer, with guaranteed delivery of the goods, the original perception of the price is no longer valid. Does this new setting mean that the price evolves from a transaction barrier into something else? For example, does it become an extended service provided by the seller as a way of trying to secure a competitive advantage in the service competition?

According to customer relations management [CRM] literature, a company can use four different main perspectives when defining what strategy to apply to their contribution to the value building process for the customer: The *Core product perspective*, where the company focuses on making the core product the foremost important factor when attracting its clientele. The *price perspective* means the company considers an as-low-as-possible price the most important feature. This perspective is considered not to be a good setting for procuring a sustainable competitive advantage (Grönroos, 2002). Further, the *image perspective*, is where the company tries to build up the product, project or company' aura (immaterial values) through marketing, and finally the *service perspective*, where elements that nurture the customer relations are added to the core product in order to procure a competitive advantage (*ibid.*). The NYP strategy might be a natural step for a company applying a service perspective in an environment where the product is perceived as something you can obtain for free, which in the previous case would be the intellectual property on the internet. One thing is certain; the price is no longer a transactional barrier.

What drives a customer, or how do you persuade a customer to voluntarily set up this transactional barrier, and pay for a product which is for sale for nothing? To maximize value, the customers would act in accordance with the theories of *the economic man* (Bakka, Fivelsdal & Lindkvist, 2006) and pay nothing when faced with the NYP strategy. Still, in the previous cases, some people did pay for the service or product which was actually offered to them for free if they wished. The theoretical framework chapter will describe the theories used to describe this irrational customer behavior.

1.3 Objectives/Purpose

The purpose of this thesis is to examine the NYP strategy, which factors to consider in the purchasing process with the customer, and the prerequisites needed or at least desired in the environment. The intention is to bring attention to this pricing strategy and how it can be applied to different products and markets. The objective will be to set up a framework or model for how to apply the NYP strategy and investigate under what circumstances it may be applicable. Not much has been written about NYP, but common denominators can be found in literature on marketing, CRM, consumer behavior, game theory, psychology, et cetera.

Purpose: Examine what factors to consider in the purchasing process and the environment of a NYP strategy

Objective: Set up a model for the application of a NYP strategy

With the technological development's recent soaring, the copyright protection of intellectual property becomes a strenuous task, where it becomes important to find new ways of hiving revenue from the intangibles. This research's academic contribution hence lies in examining if this is a viable strategy and if it is applicable for a wider range of use, since close to no academic articles has been written on this issue. The authors first encountered this strategy within the music industry, where it has developed as a response to the last decade's decline in CD sales and soaring downloads (Blockstedt, Kauffman & Riggins, 2005). Hence, a real case will be included in the theoretical framework for this examination of the NYP strategy. As a complement to the intangible good of intellectual properties, tangible goods will be included for general applicability of the model.

Barney and Ouchi (1986) claim it would be useless to summarize the environment of economic exchanges in terms of analysis, because of the dissimilarity of the transactions. Thus, each transaction must be analyzed individually (*ibid.*). They refer to: "Like the mathematician who couldn't swim, but decided to cross the a river that averaged only two feet deep, organization theorists can easily drown on the average" (*ibid.*) The problems with deviations from customer type averages will most definitely be very imminent with the NYP strategy, so the objective is to try to set up a model for under what circumstances the NYP

strategy should work the best and what to think of when applying it to a diverse customer base.

1.4 Definition

Many pricing strategies include a dynamic setting for what the customers are required to pay. These strategies can for example be auctions or where service providers can present an offer to the customer at what price they will deliver and on what terms, generally referred to as *offer and acceptance*. For this thesis, the NYP strategy will be defined as the price setting where the customers are allowed to set their own price after what they are willing to pay for the good, and receive delivery on these self determined transactional terms.

Further, the good can both be a tangible good, for example a dinner, or it can be an intangible good in the shape of a downloadable music file. The important aspect is that there is no scarcity concerning the good(s) for the definition of the NYP strategy, in order to separate it from the auction strategy.

Different terms for the NYP strategy found in literature includes *Self-determined pricing* (Sheeba spirit store, 2008), *Pay-what-you-please* (Wassel, 2007) *pay-what-you-want* (Rosenbaum, 2007), *the tip-jar model* (Hardesty, 2008), *good-karma-model* (Flandez, 2008) and similar related terminologies. NYP will be the term used for these pricing models throughout the thesis.

1.5 Limitations

This thesis will focus solely on the refined NYP strategy where the customers are free to pay what price they wish, ranging from nothing to an infinite amount of monetary units, and receive the good(s) for this amount. It will consider non-scarcity goods, where the price is not set. Other dynamic price strategies such as auctions, displayed recommended prices, selectable prices, tipping, additional donations, volume purchases, or haggling will consequently be disregarded. Note that theories from different strategies may be used if applicable.

Further, it will focus on NYP as a pricing strategy, what prerequisites are desired and how to apply it advantageously. Hypotheses will be drawn to add mass to the model but the intention is not to test these hypotheses for significance. The testing will be left for future research, and hopefully someone will test the model for significance in the future.

2. Method

This chapter explains the method for this thesis. The chapter starts off by presenting the methodology where it is displayed how the thesis has developed scientifically. The research philosophy is presented and followed by how the theory was selected and obtained. Issues of credibility, reliability and validity are thereafter discussed, with a summary to finish.

2.1 Methodology

The purpose of this thesis has been how to apply the NYP pricing strategy. The strategy has occurred before the music industry crisis, did not receive as much attention as when the famous avant-garde band Radiohead used it for the release of their latest album *InRainbows*. The Radiohead case has been the seed to the research problem for this thesis. This real life business case has been used to investigate what environment is desired for NYP to be a successful business strategy and what to think of in the purchasing process.

Customers that pay in a setting with a NYP strategy can not be seen as economic men since the economic man is always a profit maximizing individual. Therefore, the customers of the NYP strategy will be explained by the use of the administrative man, who seeks other values than economic ones in a transaction. The different mainstays the theories are sorted by, using the administrative man, are; *Environment, Actions, The satisfying alternative* and *Value estimation*. Throughout the thesis, different theories have been collected to set up a framework for the use of the NYP strategy. For the ease of the reader, hypotheses have been drawn and modifications of the starting model have been made using different theories, and the findings have been divided into one out of four groups that explain the ‘administrative customer’. In this way the theoretical proceeding become much easier to follow.

The different theoretical perspectives used, beside the modest findings regarding the NYP strategy itself are contract law, CRM, culture theory, game theory, organizational theory, marketing, pricing, psychology and real cases. The purpose is to create a model that explains what issues to consider when applying the NYP strategy, and to apply it to bring revenue to the company.

2.2 Research Philosophy

There are three major different research philosophies presented in Saunders, Lewis & Thornhill 2007, these are: *positivism*, *realism* and *interpretivism*. For this thesis, the intention is to see which prerequisites were needed for NYP to work and where, in terms of products and markets, the strategy could function. For this, theories on psychology and human behavior were essential. In the interpretivistic philosophy “it is necessary for the researcher to understand differences between humans in our role as social actors” (Saunders, M., Lewis, P. & Thornhill, A., p 106, 2007). This implies a use of an interpretivistic philosophy. Saunders *et al* claim that “generalisability is not of crucial importance” (Saunders *et al.*, p 107). For this thesis no empirical study were conducted whereby no generalisability could be made instead, a qualitative analysis of five possible cases was conducted. A model was created to explain factors crucial for the outcome of a NYP strategy. This further strengthens the choice of an interpretivistic philosophy. The model was qualitatively applied on five fictitious cases to test different markets and products.

The case of Radiohead and their use of the NYP strategy, is the starting point for the theoretical research. From the case, hypotheses were drawn that could help to create a subsequent model, together with the hypotheses from the other theory perspectives. An inductive approach is said to be used with a qualitative approach where the result should be analyzed and finalized with building theory (Saunders *et al.*, 2007). This thesis started off with a practical case, where some conclusions were drawn from for further research. After conducting the theoretical search, the findings were analyzed and a model was built. This implies that an inductive approach has been used in this thesis, but with deductive features where the presumptions of the administrative man were obtained from game theory.

2.3 Choice of Theory

The University of Lund’s search engine ELIN was the main source for collecting material for the thesis. Books and articles were also collected from Holger Crafoords’ Center for Economics’s library as well as Kristianstad University’s library. Due to the fact that little has been written about the NYP strategy, the internet was a vital search tool as complement to ELIN and library books and articles. The starting point for the theoretical search was on basic keywords as name-your-price [NYP], pay-what-you-want, pricing strategies and alike that

were thought to provide a solid foundation for the research, as well as give clues for further searching. In the end, due to the immense collection of related theories, a model was created from the relevant theories to explain what factors to consider when applying a NYP strategy.

Since not much was to be found on the NYP strategy itself, a thorough search for related topics was conducted where the administrative man (Simon, 1971) was chosen to represent the customers confronted with the NYP strategy. There was a need of setting up a framework for a customer base whose sole goal is not only monetary value maximization. The model created from the framework of the administrative man was modified to suit the specific case of the NYP strategy with changed labels and a distinction between tangible and intangible products in the box labeled environment (1) due to character dissimilarities. Hypotheses are drawn from different theoretical areas which were thought to affect the transactional environment and purchasing process in a NYP setting: First the case of Radiohead's digital album release was used as a practical reference in the used theory since there are clear indications of success in the application.

Opportunism seemed reasonable to include in the theoretical framework since it has academically been described as one of the biggest transactional costs in economic activity (Williamson, 1979). Since the NYP setting does not involve acceptance of an offer from a buyer, the biases, prejudice and other *noises* in the market, and how to cope with these, were important to include. *Altruism*, its relatives, and the antithesis *selfishness* seemed important to include because of the transactional freedom given to the customer, and something else than a set price must provide incentive for him or her to increase his or her WTP. Different *culture aspects* were argued for, since consumers around the world tend not to behave likewise (Orlowski, 2007). *CRM* theories were utilized when building the theoretical framework, since service is a way of building relations with your customer base, as well as obtaining competitive advantages (Grönroos, 2006). Marketing theory states, and have shown statistically, that a clear *manipulative intent* will make the customers experience negative feelings with the advertiser. A belief that this issue of manipulative intent contra *credibility* would translate to the NYP setting likewise included it in the theoretical framework.

Since transactions involve humans and their different behavioral patterns and responses, such as guilt, altruism, et cetera, issues of whether the transaction takes place *face-to-face* or if it is conducted in an *impersonal* setting were included. Finally because of the presumption of

limited information in accordance with the administrative man (Simon, 1971), *lucidity* was included.

2.4 Credibility

Since many of the hypotheses in the theoretical framework were found not to be easily measured, a totally theoretical approach was needed. In this thesis, the analysis might be better, and more correct, if solely based on relevant gathered theories and findings than on empirical studies. The five cases are fictitious, but believed to represent possible market situations and therefore used.

Richards (2006) discusses *pseudo personalities*, that is to say peoples' lying tendencies, or alter egos, in surveys and interviews (Richards, 2006). In this thesis, opportunism, reciprocity, guilt and willingness to pay are essential parts. The mentioned factors are all sensitive for subjectivity where it is not certain that people are actually honest in their answers. People, in general, do not want to be seen as greedy, cheap or cold hearted. A survey would therefore not render the thesis more validity or reliability, than a totally theoretical approach. If the time aspect and funding would be present a vast survey could be made with test groups, conducted in different areas, with different settings, and with different products, to try to find relevant empirical data. An effort to identify respondents with low credibility could also be made. The credibility of this thesis would of course be greater if it could be confirmed that the hypotheses in the final model were accepted in a significance test.

2.5 Reliability

“Refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings.” (Saunders et al, p 149, 2007)

On one hand the reliability can be considered to be high in this thesis since the model is partially founded on a real live case, namely the Radiohead case. Since, the research objective roots in a real live case, the thesis is believed to have a high reliability. On the other hand the reliability might be slightly lower since the factors to consider are self determined, which also means that some factors have been excluded. This is partly because there is not much written

about the NYP strategy itself, but extremely much written about factors that are believed to influence and affect the use of a NYP strategy. Further, other researchers might find different factors or complementary factors that should or could be important for explaining a framework and the prerequisites for the NYP strategy.

This thesis is believed to be a starting point for further research, with greater time and funding, and should function as a *gate keeper* to the NYP strategy. Therefore, this thesis is believed to be of great importance for the understanding of needed factors in a NYP strategy.

2.6 Validity

“Is concerned with whether the findings are really about what they appear to be about. Is the relationship between two variables a causal relationship?” (Saunders et al, p 150, 2007)

Since there has not been written much about the NYP strategy, a lot of the findings used in this thesis are taken from other surveys and research objectives. One example is the research concerned with tipping in the restaurant industry conducted by Lynn & McCall, which is used to display how tipping can be influenced by different actors. Findings and conclusions in this thesis depend on that other researchers, like Lynn & McCall’s, have had high validity and that tipping of course is a factor to consider when applying a NYP strategy. The essential here is if there is causality between factors. It is a fair conclusion that the size of the tip in a restaurant depends on factors that the waiter/waitress and the restaurant owner can affect. Since the NYP strategy builds on people’s WTP more than they actually need, you have the right to pay zero, it is fair to say that there is a relationship between how willing people are to tip and how they would pay in the NYP setting. As the factors are found in others research or in a real business case, Radiohead, it is believed that this thesis has a high validity.

It also is believed, that a totally theoretical approach will render higher validity than if a survey or interviews would be used. This due to the fact that it is very sensitive to ask people, consumers, what they would be willing to pay for a product with the NYP strategy. One of the factors why this would be the case would be that of pseudo personalities mentioned earlier in the credibility discussion.

2.7 Summary

This chapter has presented the choice of methodology, research philosophy and choice of theory used in this thesis. In the methodology, the purpose and the main structure using the administrative man were presented. Thereafter, the research philosophy was defended through the use of an interpretivistic view. Further, the inductive approach was selected to fit the creation of the NYP framework. Finally, credibility, reliability and validity were discussed, where the choice of writing a totally theoretical thesis was defended. This decision was taken because of the few hypotheses that could be tested by a survey or alike. Also, conducted by Richards, stating that consumers use pseudo personalities to answer surveys in an untruthful way supported the decision to write a theoretical thesis without any empirics. This was defended as it gave a higher validity and reliability than if a survey or interviews would have been used.

3. Theoretical framework

This chapter provides a description of the theoretical references used for the thesis. First a discussion of what the core issue of the NYP strategy is and what theoretical approach was used for the problem. Afterwards, descriptions of theories follow and why they are included for the compiled model. The hypotheses are presented in connection with each theory and summarized at the end of the chapter in a theoretical compilation, which also presents the finished model.

3.1 Foundation

Customers' *willingness to pay* [WTP] is central for this research, and to keep this WTP at the highest level possible is central for any successful application of the NYP pricing strategy. To find out how to optimize the WTP, a transaction profile, must be set up in order to examine what underlying factors affect them to actually pay something for the provided good or service; the desired prerequisites and the purchasing process itself.

The economic man is a description of an economic actor who enters a market with one ultimate goal; to maximize his value at the lowest cost, without taking any emotional aspects in consideration (Bakka *et al.*, 2006). A customer might be expected to act in accordance with the economic man and show no WTP at all if not required to, but the previously described case of Radiohead's digital album release clearly shows that monetary value maximization is not the only desired outcome for customers, as a group, when faced with the NYP strategy.

For a customer to pay for a service or good when he is not required to is, in accordance with the economic man previously described (*ibid.*), an irrational behavior. This means that something more than value maximization must be included into the transaction profile of the WTP. Since the theory of the economic man does not fully apply to the customers in the NYP setting, customers as a group will be regarded as *administrative men* (Simon, 1971) and designated *administrative customers* for this thesis. The original term derives from game theory and describes the behavior of a person whose goal is not solely value maximization at the lowest cost (*ibid.*).

Some of the labels in the following description have been slightly renamed to suit the specific case of the NYP strategy. The basic setting for an administrative customer, and thereby a potential contributor to a successful NYP strategy for a company, will be examined from these four mainstays (*ibid.*):

1. Environment *-The customer's rationale for decisions roots in the customer's frame of references which together with the product characteristics will create the environment for the transaction,*
2. Actions *-Interaction between the company and the customer forms an active relationship from both sides which is intended to result in a limited set of action alternatives for the customer. Vide licit, increasing their WTP.*
3. The satisfying alternative *-An alternative that fulfils other needs than just value maximization and minimized monetary contribution, for example guilt and risk minimization, a satisfying level of perceived reciprocity and altruism.*
4. Value estimation *-Since an administrative man's decision is based on limited information in contrary to the economic man; the administrative man will make the payment decision based on a simplified intelligence compilation from a limited source of information regarding the product.*

In order to examine how this strategy is optimally applied to a current setting, these four groups will be put into a model designated the *NYP pricing strategy model* (fig. 1):

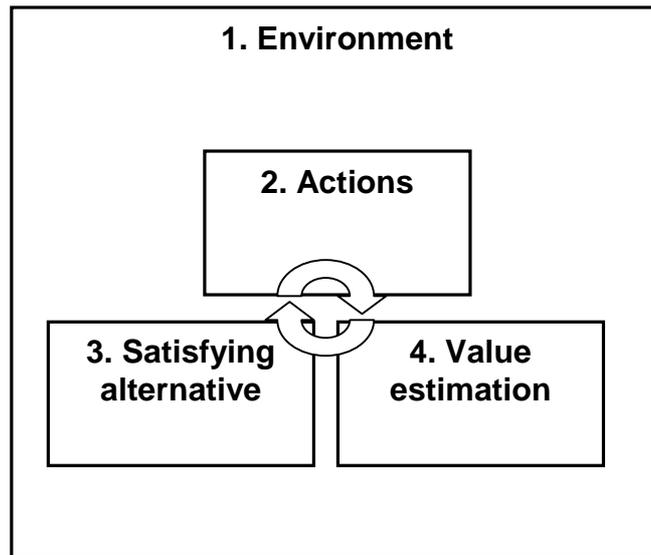


Figure 1 - NYP pricing strategy model

As seen in figure 1, an environment based on customers' frame of references and product characteristics (1) are set to create a type of preferred environment for the pricing strategy, and the three remaining categories (2, 3 and 4) will describe the preferred content of the purchasing process. Further, a number of hypotheses are extracted out of existing theories from marketing, pricing, customer behavior, psychology, CRM, and practical cases, which are thought to affect the strategy; these will be categorized into the four groups in the NYP pricing strategy model. The model will then present desired prerequisites, both in the environment and the purchasing process of a customer.

To start off, a separation between two categories of goods are made:

3.2 Tangible/intangible goods

It seems reasonable to make a distinction between tangible and intangible products when constructing a model for the application of the NYP strategy due to the difference in characteristics of the two groups. Intellectual property is a group of intangible products which bear a distinct feature which tangible products does not hold; they are *non-rival*. Non-rival refers to that the use by one consumer does not decrease the ability for another consumer to use the product (Mandel & Sinha, 2008), thanks to the product's feature of easy duplication without risking depletion (Shulman, 2001). This feature reduces the impact of for example opportunism drastically, since there will be no scarcity of the goods and one unique

opportunist can only inflict a limited amount of damage. These factors motivate the separation between the two groups. The distinction is made in the environment of the NYP pricing strategy model (fig. 1) in a way so that tangible and intangible products in the box previously labeled *environment* (1) are now separated, as can be seen in figure 2:

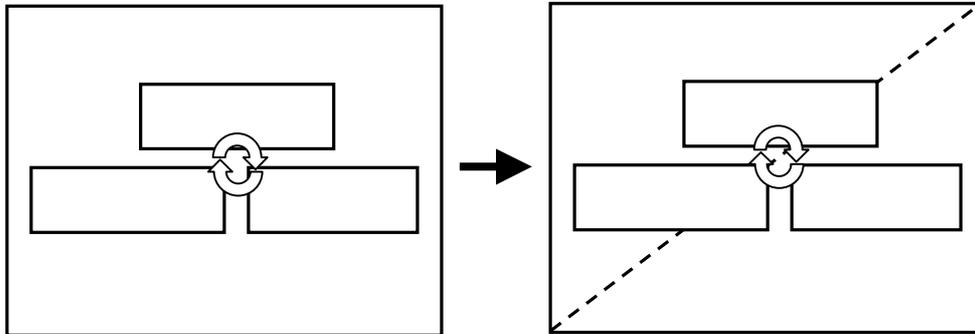


Figure 2 - Distinction between tangible and intangible products in the NYP environment

With the amendment of distinction between tangible and intangible goods, the model is ready to be applied to the hypotheses extracted from the following case and theories. First off is a detailed description of the previously mentioned Radiohead case, in order to gain an understanding what made the NYP strategy a success.

3.3 NYP case: “Radiohead”

Radiohead was formed in 1986 under the name *On a Friday*. In 1991 they changed their name to *Radiohead* after signing to EMI Records. Their first album followed in 1992, *Pablo Honey*, which contained one of their most famous songs; *Creep*. In 1995, their sophomore album, *The Bends* was released. At this time they toured with world renowned band REM, which made them known to the public as the avant-garde band as they are known as today. In 1997, Radiohead released a new album called *OK Computer* and this album is considered to be their foremost work, featuring the single *Paranoid Android*. This album made Radiohead internationally renowned and generated millions of fans. In 2000 they released *Kid A*, and in 2001 *Amnesiac*. In 2003 they released their next album titled *Hail to the chief*.

In Rainbows was released in October 2007, via download on their album homepage InRainbows.com (www.justradiohead.com). The oddity of this specific release was that

Radiohead bypassed the usual proceedings of using a record label to produce, market and distribute an album (Rosenbaum 2007), fans were also allowed to set their own price for the album. The band itself has not published any numbers of how much they actually earned on releasing their latest album on the internet using the NYP strategy and outside estimates differ.

ComScore, an online media surveyor, is used in the attempt to obtain some figures regarding Radiohead's NYP strategy. ComScore bases its estimation on software that monitors its user's behavior, and would therefore be more accurate than plain estimations by others. ComScore monitored its user's behavior under a 4 week period after the album could be downloaded from InRainbows.com. The result was that 62 per cent did not pay anything as the remaining 38 per cent paid an average of \$6.00. If the people who paid zero are taken into consideration the previous mentioned numbers will be changed to an average of \$2.26 (D'Souza, 2007).

The critics of the NYP strategy claim that the success in Radiohead's case was the fact that EMI helped promote the band for several years, and if this was not the case, the NYP strategy would not have worked at all (Orlowski, 2007). From the claims that the marketing efforts by EMI built Radiohead's brand as an avant-garde band and was the key to the success of the digital release, sprung the hypothesis:

H0: To facilitate a NYP strategy, the company or brand must have a history of marketing efforts to establish itself as a credible actor whose main interest is its product, not the revenue it brings.

What are the incentives to use a Pay-what-you-want strategy for digitally distributed music? First, there is a very low risk of being caught for illegal downloading and sued (Mandel & Sinha, 2008), so instead of forcing a price, which the customers can easily go around, Radiohead acts on different aspects of altruism, guilt et cetera which affects their fans to contribute monetarily. Secondly, iTunes reported in February 2006 that they had sold for more than 1 billion downloads. This is a further indication of that people are willing to pay for something that can easily be obtained for free (Rosenbaum, 2007).

In an interview conducted by David Byrne with Radioheads singer Thom Yorke, the singer mentions that releasing the album themselves over the internet make them earn money for the first time from downloads. Since the previous contract with EMI was signed long before downloading was even considered a source of income, EMI got all the revenue from the following digital sales (Byrne, 2007). In terms of income, Radiohead has not released any figures, but Steve Hofstetter is a comedian who has made the same journey as Radiohead; he released an album using the NYP strategy instead a regular CD release. He says that he made more money the first two days than he did in the first two weeks of his previous album. He claims that he makes on average three times his former royalty rate by selling the album online (Rosenbaum, 2007).

According to Rosenbaum who is referring to an article written by Courtney Love, a scandal artist from Seattle and an experienced established musician, the upper limit for how much a band/artist can make on royalties on a traditional album sale is about \$2. If Radiohead could make \$2.26 per album, they may more than well have made a good choice of strategy, irrespective of the high rate of opportunism, since no direct cost can be tied to each unique opportunist.

Radiohead decided after they released the album on the Internet to complement with a traditional CD, which they licensed to TBD Records/ATO Records Group (Byrne, 2007) in the US. A Radiohead fan writes on a blog of D'Souza (2007):

The download was medium quality MP3, not a CD quality lossless format or even high quality 320 kbps MP3. This means that it's OK to listen to on an iPod or MP3 player but you still need to buy the CD when it's distributed if you want to listen to it on a hi-fi system. Also there were only 10 songs, about half of what are on the physical CD.

This gives incentives to fans to buy the record as well, which would generate even more income for Radiohead, but is not a crucial factor when applying the NYP strategy so it will not contribute to the model even though it is a way of maximizing your income.

When viewing the NYP strategy used by Radiohead it seems more of a marketing trick than a 100 per cent used business idea for creating revenue. But, if they still could make more money per album (\$2.26) than when signed to a label (\$2), it may be a strategy that others

could use when releasing albums as well, to gain revenues above traditional royalties. In Radiohead's case they decided after some time that they should release the album on CD. From these factors the following hypothesis was sprung.

H1: If NYP is temporary, opportunism may increase dramatically if customers know about a future change to a fixed price strategy.

Before Radiohead released their physical album, Nine Inch Nails released their album for free on the Internet (not using the NYP strategy). When Nine Inch Nails later released their album with a CD, a deluxe CD and even a deluxe disc box version manufactured in 2500 examples for \$300 per album, they made big revenues in the first days. Only the deluxe disc box version sold out in minutes after the release, which rendered \$750 000 the first day (Hansson, 2008). This shows that even if the band gave the album away digitally there are still fans that want the physical album and booklets et cetera if the subsequent product provides extra value. In Radiohead's case they released both a CD, a vinyl, and an enhanced CD with digital photographs and artwork and finally a deluxe disc box version with artwork and lyric booklets, selling for \$82 (www.radioheadinrainbows.com/). There are no numbers of how these different editions have sold, but when looking at the case with Nine Inch Nails it is believed that they made a lot of money out of these as well. It is reasonable to believe that these additional frills would appeal to the devoted fans.

3.4 Opportunism

A business transaction is always preceded by a contract, oral or written, between the buyer and the seller. In order to establish what counteraction is required by the buyer to claim the ownership of the good(s) or receive the service provided by the seller.

The unique setting for the NYP strategy is that none of the three conventional types of contracting; *classical*, *neoclassical* nor *relational contracting* (Williamson, 1979) suit the prerequisites for NYP. As for the classical way of forming a contract, there can be no statute what remedies will be set for a contingent underperformance of a customer, since there is no contractual limit of at what price the delivery will default. As for the neoclassical contracting, no arbitrator or court could settle a dispute in favor of the seller since the buyer enjoys a

setting of complete transactional freedom. Even the relational contracting does not apply since the buyer is free to change his counteraction from one transaction to the next. This mismatch between NYP and contractual law will be problematic when dealing with one of the biggest transactional costs when endeavoring in economic activity; *opportunism (ibid.)*.

The accomplishment of making the customer group behave altruistically, or in another way show a WTP, instead of behaving opportunistically when faced with the NYP strategy will be vital for the pricing model to work. Opportunism has its roots in several soils; the cultural setting, current events or in historical aspects, where for example a country with a war torn history of conflicts and despair should be expected to have a higher level of opportunism among its inhabitants than a country of peace, high living standards and a well functioning legal system.

Whether or not an individual will act opportunistically is connected to psychological feelings known as *reactive guilt* and *anticipatory guilt* (Rawlings, 1970). These are the guilt feelings experienced when one has violated one's own framework of acceptable behavior and the guilt experienced prior to a situation of a guilt bringing action (*ibid.*). A cultural setting of high opportunism would consequently mean a lower perceived level of anticipatory and reactive guilt by the customers. This means lower revenues for a business utilizing the NYP strategy, both by new and returning customers. This was the background of the following hypotheses:

H2: *NYP must be applied in an environment of low opportunism.*

H3: *NYP must be applied in an environment where customers are able to contribute to your business monetarily.*

H4: *Customers, as administrative men, seek complementing values to monetary value maximization, in order to decrease guilt.*

If the customers as a group act in accordance with the administrative customer, chances are still that a portion of this group will act opportunistically, and to restrain this portion to a number as small as possible will be difficult. The first problem in restraining the problematic group would be to identify who are the opportunists in your clientele. To facilitate the process for the seller and remove undesired obvious opportunists, a selective approach of who to do

business with would be desirable, in other words a transactional barrier, for example a book of trusted customers who are the selected ones you conduct business with. Thereby the following hypothesis:

H5: *A selective strategy with an authorized clientele will facilitate the application of a NYP strategy.*

To further subtrahend the opportunists, it seems reasonable that a NYP strategy will work better, in terms of not loosing (zero-transaction wise) too much merchandise to opportunists, if the good sold holds a quickly diminishing marginal utility for the customer, combined with a low second-hand value. The low marginal utility would prevent the opportunists to stock-pile your merchandise for virtually no monetary counteraction, and the low second-hand value would prevent the risk of opportunists obtaining the merchandise and selling it on for profit purposes. These thoughts rendered the following hypotheses:

H6: *The NYP will work better if the marginal utility of the good is low.*

H7: *The NYP will work better if the second-hand value is low.*

3.5 Noise

The market for products and services today is characterized by a loud noise from the competitive environment (Keller & Kotler, 2005), and the task of the marketing departments in the dynamic business environment of today is to make sure not to drown in this noise. Marketing is communication (*ibid.*) and since NYP is a fairly unused pricing strategy today. This distinction may prove a valuable part of a company's marketing mix, in order to stay distinct and offer a unique service unmatched by competition. Hence, this *first mover advantage* would disappear as soon as it becomes a norm in the market. This gives the following hypothesis:

H8: *NYP is more applicable if you are profiled by the use of the pricing strategy.*

But, there is noise imminent even after having attracted the customer as well. For this thesis, theories from in-house business communication in organization theory have been applied to business-to-consumer [B2C] communication. Two types of noise are recognized; *physical noise* and *psychological noise* (McKenna, 2006). The physical noise between the business applying NYP and the customer could be embodied by a loud store or interference on a data transmission and is not vital for the pricing strategy itself. The psychological noise, on the other hand, is something the company must cope with in order to gain and maintain credibility for its pricing strategy. Psychological noises are biases, prejudice, opportunism and other behavioral patterns (*ibid.*) that may distort the strategy and in the end, lower the company's revenues to critical levels. The psychological noise for NYP would be environmental factors (the noisy market) and the selectivity by the customers. The selectivity in this case is not the decision process when choosing suppliers, but whether or not to pay for the product chosen and how much, *vide licit*, WTP. Yet another factor to overcome for the NYP strategy is designated *the bruised ego* by McKenna (2006). For B2C communication, *the surprised ego* may be a better term; it implies that the receiver of the message, in this case the message of that he or she, the customer, possesses the transactional jurisdiction. This may have an impact of that the customer acts too quickly (and acts opportunistically), or becomes defensive and pays nothing or very little. To cope with these psychological noises this hypothesis is drawn:

H9: *A presentation of the capital put into the product is needed in order to guide selectivity towards a higher monetary transaction, and to restrain the surprised ego.*

3.6 Altruism and reciprocity versus selfishness

In general, customers that are faced with a supplier in a business situation has two reasons to pay something for the good; first, to get something in return or secondly, because of a sincere concern of giving something back to the supplier (Aggarwal, 2004). The latter is academically known as *altruism*. The definition of altruism is the unselfish concern of someone else and it originates from the Italian word *altrui* which means "someone else" (Oxford University Press, 2008). This altruism can provide a reason for customers to pay in the NYP case. Altruism is related to a term known as *the reciprocity principle*, a psychological phenomenon which states that people will pay you back for something that contributes to their value building process (Decker, 2003). This can be embodied by a free give-away at a convention, a gift in a

direct mail marketing campaign or something similar. In the NYP case, the gift would be the goods put out for sale and the reciprocity principle would state that the non-paying customers would feel obliged to reciprocate with a monetary transaction right away or in the future, even if the price is self determined. These two factors, altruism and the reciprocity principle, yielded these two hypotheses:

H10: *The business environment must strengthen customers' unselfishness concern for the sustenance of the supplier; this will provide substratum for them to pay for the good.*

H11: *A possibility for non-paying customers to reciprocate the seller for the previous zero transaction in the future will increase to possibilities of success with the NYP strategy.*

The antithesis of altruism is *selfishness* and portions of the customer group may act in accordance with this opportunism-related term. Selfishness translates to a customer as his concern for his own welfare with a disregard of others' (customers or suppliers). Hence, the question in the NYP case would consequently be how to make this selfishness work for the supplier. A scenario that would help the NYP utilizing supplier to make customers' selfishness contribute to the suppliers' business instead of being a liability, is if the customer is representing and consequently acting pursuant to something other than his own interests, for example when representing a company or a brand. His concern of his own welfare, in terms of avoiding experiencing negative consequences when hurting the brand, would believably increase his WTP.

H12: *A NYP strategy will work best in a business-to-business [B2B] environment.*

3.7 Cultural differences in consumer behavior

Radiohead's release of their latest album *InRainbows*, using the NYP strategy rendered an average of \$6.00 per album downloaded, without taking in consideration those who downloaded it for \$0 (Orlowski, 2007). One interesting aspect is that there was a significant difference when dividing the downloading population into American and non-American customers; People within the US paid an average of \$8.05 per album, and people outside the US paid an average of only \$4.64 (*ibid.*). These figures can be seen

seen as very important for the NYP strategy, whereby the strategy managed to gain more than 73 per cent revenue per album downloaded in the US area than the other areas.

There may be plenty of factors that provide explanations to why people within the US would pay much more than people outside the US; for example a high purchasing power or a contingent cultural attitude which increases the WTP. But it seems reasonable that differences in tipping culture would be significant for the difference; in the US it is customary to pay a tip of fifteen to twenty per cent of a bill (Lynn & McCall, 1997). You also tip when you receive extra service, for example when checking into a hotel when a porter provides luggage service. Tipping has developed over time and is generally seen as a complement to the minimum wages in the US (*ibid.*) or non-existing salaries that many employees have in service industries like café personnel and porters (www.howstuffworks.se). This is important to keep in mind when trying to define the NYP strategy since it is based on peoples' goodwill of paying more than they actually need to. As in Radiohead's case, the album can be downloaded for free.

Further, in some countries like Argentina and Vietnam it is illegal to tip in restaurants (*ibid.*), which develops a non-tipping culture, whereby the NYP strategy is believed not to function as well. In Scandinavia it is not custom to tip, although an extra compensation of ten to fifteen per cent is added to the bill in favor of the waiters (*ibid.*). Thus, being a culture where people are not accustomed with tipping, people in Scandinavia probably paid below average for the downloadable album. This yielded H13:

H13: A NYP strategy is more likely to succeed in a culture setting where tipping is custom.

Many areas cultures build on cash payments, Asia, Africa and Middle East (Söilen, 2008). Elbeltagi (2007) writes that in Egypt there are no real credit card systems for the general public and the inherent attitude and habit of the people are to pay cash for what they buy (Elbeltagi, 2007). Radiohead released their album over the Internet where you are required to use a credit card or debit card (www.InRainbows.com). If you decided to pay for the good, and this is not generally as accepted as means of payment in many of

the Middle Eastern and Asian countries, it implies a very low average of payment in these areas. Lynn & McCall found that if a waiter encouraged customers to pay with credit cards it actually rendered a higher tip than if they were paid cash (Lynn & McCall, 1997). This has to do with the fact that the use of credit cards decreases customers' concern with cost since it postpones payment into the future as well as it increase the consumers' buying power (*ibid.*).

H14: *A versatile payment system increases chances of success for NYP.*

3.8 Customer relationship management

The NYP strategy for a company would be part of a strategy of service character (Grönroos, 2002) since the customers are invited to do business irrespective of their financial situation. It would also invite to a more profound relationship with the customer in several ways, as for a smaller band than Radiohead, it would provide a hotbed for building a fan base (Rosenbaum, 2007) for example via an internet based music distributing community. This CRM strategy is especially applicable with digital distribution because of the characteristics of non-rival goods. The NYP strategy could be argued to contribute to the value creating process for the customer, and this added value for the customer would theoretically increase their willingness to pay if the service is unmatched by the competitors (Grönroos, 2002).

H15: *A profound relationship with the Customer facilitates NYP applicability.*

H16: *The NYP strategy can be used in the commencing process when building a brand, especially, for cost reasons, if the good is non-rival.*

3.9 Credibility versus manipulative intent

When marketing your NYP strategy in a fashion that will generate a monetary contribution from your customers, it seems reasonable to suggest that a company which is projecting credible characteristics instead of coming across as manipulative would receive higher payments from the customers. Marketing theorists claim, and this has been statistically proven, that if an advertisement comes across as manipulative when delivering a message of

for example guilt to the customers, the customers react contrary to the guilt feeling the company intended to plant. The customers also get a negative impression of the advertiser (Cotte, Coulter & Moore, 2003). The research further shows that even if a company comes across as credible but the ad-recipient feels he is being manipulated, the negative feelings occur (*ibid.*), so a radiant credibility without a clear manipulative intent is desired to reach your goals with the advertisement. With the NYP strategy, this would mean that if the customer feels he or she is being manipulated into feeling guilty, it is reasonable to believe their WTP would decrease, perhaps to such an extent that a zero transaction occurs. In the other extreme, a high credibility would theoretically increase the WTP with the customer. Thereof, the following hypothesis since credibility has already been accounted for:

H17: *A clear manipulative intent will lower the customers' WTP.*

3.10 Face-to-face/impersonal

A study conducted in the restaurant business regarding tipping waiters, by the previously mentioned researchers Lynn & McCall, will be used as a base for explaining how people tip and what sellers can do to increase the incentives for customers to tip. Translated to the NYP strategy, what the seller can do to increase the customers' WTP.

In their research it was found that the most important variable to explain the amount of the tip was the size of the bill. The connection they found was that the size of the tip increased with the size of the bill at a marginally increasing rate (Lynn & McCall, 1997). The test also showed that this became even more true the more expensive the restaurant (*ibid.*). Lynn & McCall found that waiters could do several things that would improve the amount of tip from customers. They could for example give their name to customers, squat beside the customer's table to decrease the sense of inferiority experienced by the customer, make physical contact with their customers and give candy along with the bill. These implications were all tested and proven, and show that if the waiter familiarizes himself with the customer and creates a positive setting he will have a bigger incentive to tip more (*ibid.*). This is related to the mentioned service perspective (Grönroos, 2002), where competitive advantages are set by additional frills than just the core product. The feeling of personal interaction renders higher purchases

as well as more frequent buys (Ryan, 2001). Also, the tip became higher if it was sunny and if the waiter made conversation about how nice the weather was (Lynn & McCall). These factors are collected below in the following hypotheses:

H18: *The NYP strategy will function better in an environment where the company representatives have the ability to influence the customer in a positive way.*

Lynn & McCall write that tip is the attempt to buy approval, goodwill and esteem of waiters and fellow consumers, as well as to show wealth, guilt, empathy, reciprocity or altruism (*ibid.*). Frequent patrons are more likely to encounter the waiter again and therefore, to value his or her esteem and approval (*ibid.*).

H19: *The NYP strategy will function better when the customer is a regular and encounters the same company representatives often.*

Further, Lynn & McCall's research shows that restaurant visitors value the esteem of attractive waiters higher than those who are unattractive. Also customers who can see themselves in the server's position will give a higher tip, for example a white customer will render more tip to a white server than of other appearance (*ibid.*).

H20: *The NYP strategy will function better in a setting of appealing company representatives.*

H21: *The NYP strategy will function better when products are sold by people from the same culture, background, ethnicity and religion, as the customers.*

3.11 Lucidity

The administrative man makes his decisions based on a limited supply of information contrary to the economic man (Simon, 1971). This implies that the customers' value estimation must be facilitated so that they do not experience the fear of making a bad deal in the purchasing process. The need of displayed capital, previously stated in the noise discussion by McKenna (2006), it is argued that the product sold must be easy to assess in terms of monetary value.

This further implies that the good must be of a non-compound character, and fairly commonly encountered, in real life or in media, by the customers.

H22: *Product must be of a non-compound character.*

H23: *Customers' must be familiar with the product in order not to estimate its value too low in fear of making a bad deal.*

Hypothesis 23 concludes the included theories for the NYP pricing strategy model.

3.12 Theoretical Compilation – The NYP pricing strategy model

The following is a description of the operationalizing process how the drawn hypotheses were included in the model based on the administrative customer:

The first hypothesis (H0) *“to facilitate a NYP strategy, the company or brand must have a history of marketing efforts to establish itself as a credible actor whose main interest is its product, not the revenue it brings”* is clearly a task for the marketing department and the front line personnel, it will be summarized as *credibility* and consequently put into the buying process within the actions box (2). *“If NYP is temporary, opportunism may increase dramatically if customers know about a future change to fixed price strategy”* (H1) is also drafted from the Radiohead case like H0, and to restrain this opportunism, a company must remain secretive about the strategy change. This is why H1 will be labeled *Secretive of change*, and placed among actions (2).

“NYP must be applied in an environment of low opportunism” (H2) will be labeled simply *Low opportunism* and placed inside the environment box for tangible products (1a) since it is a part of the customers' frame of references, and intangible products are not as exposed to opportunists thanks to its non-rival and easily duplicable character. *“NYP must be applied in an environment where customers are able to contribute to your business monetarily”* (H3) is also an environmental factor, but if the intangible product is digitally distributed, the market is not geographically limited and goods are non-rival, thanks to the internet; hence the split into *Purchasing power* for placement in 1a, and *non-rival* in 1b. *“Customers, as administrative*

men, seek complementing values to monetary value maximization, in order to decrease guilt” (H4) is a complementing value for customers, hence placed in satisfying alternative (3) as *decreased guilt*. “*A selective strategy with an authorized clientele will facilitate the application of a NYP strategy*” (H5) will be labeled *Authorization*, and is argued to be an action where you restrict the transactional opportunities to a limited set of trusted customers, hence box 2.

The hypotheses “*The NYP will work better if the marginal utility of the good is low*” (H6) and “*The NYP will work better if the second-hand value is low*” (H7) are both product characteristics and the best box for H6 respectively H7 would be the environment box, since it does not affect revenue directly with an intangible product, hence the placing in 1a as *Low marginal utility* respectively *Low second-hand value*. The hypothesis “*NYP is more applicable if you are profiled by the use of the pricing strategy*” (H8) is again a question of brand building which will be an action, placed in box 2, and labeled *Profile*.

“*A presentation of the capital put into the product is needed in order to guide selectivity towards a higher monetary transaction and to restrain the surprised ego*” (H9) will be vital for the customers’ value estimation, therefore labeled *Displayed capital* and put into box 4.

“*The business environment must strengthen customers’ unselfishness concern for the sustenance of the supplier; this will provide substratum for them to pay for the good*” (H10) is connected to altruism which is connected to how the company is perceived by the customer and is highly affected by the company. In the end, this can be argued to be of the other values apart from monetary value maximization, so it will be labeled *altruism* in box 3 as a part of the satisfying alternative. “*A possibility for non-paying customers to reciprocate the seller for the previous zero transaction in the future will increase the possibilities of success with the NYP strategy*” (H11) can be argued as a complementary value, thereof placed in box (3) and labelled *Reciprocity*.

“*A NYP strategy will work best in a B2B environment*” (H12) is a factor which will be labeled simply *B2B* and put in the environment for both tangible (1a) and intangible products (1b). This is done because tangible goods as well as the intangible good category of services benefit from using the customers’ selfishness to the seller’s advantage, by exploiting representation. Note that an intangible such as a downloadable file does not necessary have to be employed in a B2B environment, thanks to the vastness of the internet market, but it will theoretically still

increase the WTP. Hypothesis 13, “A *NYP strategy is more likely to succeed in a culture setting where tipping is custom*” can be argued to be put in the value estimation box (4) since tip is usually a percentage of the bill total, but since it is a highly cultural feature which the company can hardly affect, it is put in the environment box for both tangibles and intangibles (1a and 1b) as *customary tip*. The complementary placing in 1b is due to today’s trend of considering information as something free (Hampp, 2008), hence tip is very welcome as revenue.

“A *versatile payment system increases chances of success for NYP*” (H14) is a factor which is very reliant on the service supply from the company (Grönroos, 2006), hence put as *payment versatility* among the actions (2) in the buying process. “A *profound relationship with the Customer facilitates NYP applicability*” (H15) is also put under actions (2) since this is an interaction from involved parties. It is designated *profound relations*.

“The *NYP strategy can be used in the commencing process when building a brand and especially, for cost reasons, if the good is non-rival*” (H16) is also a task for the marketing department, hence an action and the label will be *brand building*. Hypothesis 17 states “A *clear manipulative intent will lower the customers’ WTP*”. Manipulation will be considered an action by the seller, labeled *Low manipulation* and put in box 2. Further, “The *NYP strategy will function better in an environment where the company representatives have the ability to influence the customer in a positive way*” (H18) is also put in box 2 labeled *ability to influence*.

“The *NYP strategy will function better when the customer is a regular and encounters the same company representatives often*” (H19) is a matter of environment irrespective of the character of the goods, thus placed as *Recurring clientele* in 1a and 1b. “The *NYP strategy will function better in a setting of appealing company representatives*” (H20) is a recruiting issue, which will be designated *appealing frontline* and placed among actions (2). Next hypothesis (H21), “The *NYP strategy will function better when products are sold by people from the same culture, background, ethnicity and religion, as the customers*” is related to H20, and placed in the same box (2) as *customer affinity*. It could be argued to be an issue of environmental character, but recruiting the right people in terms of affinity could bypass that risk.

“Product must be of a non-compound character” (H22) is a factor in the value estimation (4) hence put in box 4 under the label *Non-compound good*. Finally, “Customers’ must be familiar with the product in order not to estimate its value too low in fear of making a bad deal” (H23) is also a factor of the value estimation (4) process, and it will be designated *product familiarity*.

With all the hypotheses included the NYP pricing strategy model will look as the figure below (fig. 3):

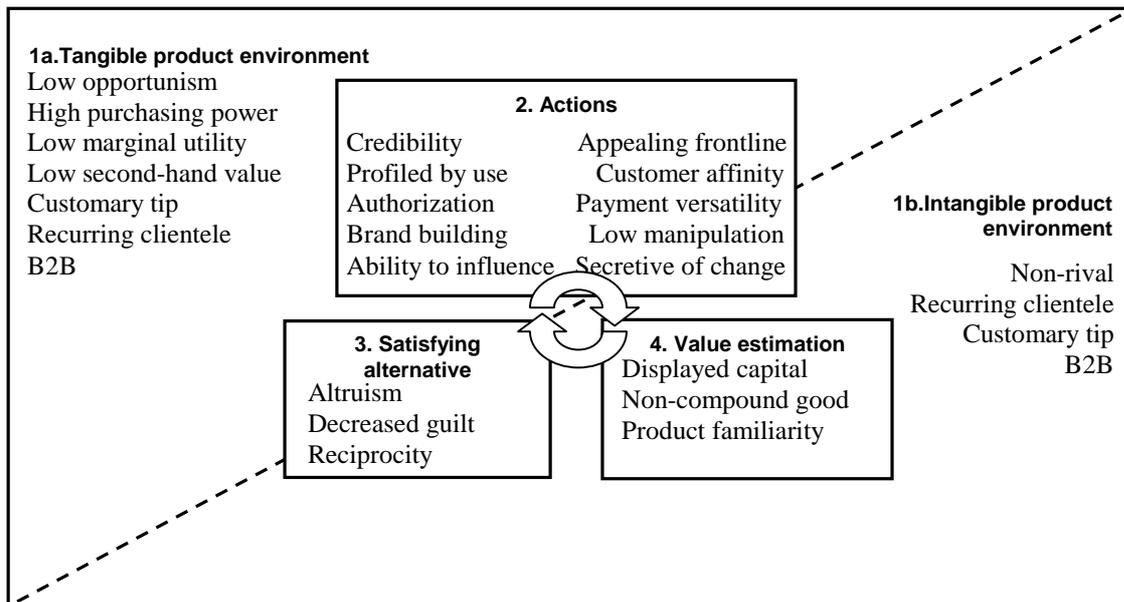


Figure 3 - NYP pricing strategy model

4. Empirical method

Due to the complexity of the human behavior patterns accounted for in the method chapter, no hypothesis will be tested for significance on empirical data. Five fictitious cases are described to give examples of five different settings and possible issues if applying NYP in these settings.

The empiric method for this thesis will, as previously stated, be of a theoretical character. To see which products and markets are suitable for a business applying the NYP concept, five fictitious cases of different goods will be described in detail to see if the goods are applicable to the NYP strategy. This is done to give a feel for different possible issues when applying NYP to different contexts. Recitals of these cases are presented below:

4.1 The five fictitious cases

Case 1: Sandy communication

A Swedish exclusive mobile phone company wishes to sell its products in Dubai to corporations on a NYP basis.

Case 2: Liquid evil for individualists

A domestic US coffee shop, based in a low income area of Los Angeles, wishes to sell its products in its existing store on a NYP basis. This is done for marketing purposes to build brand recognition. The store sells freshly grinded coffee and tea in a vast amount of variations. The only products available except for coffee and tea are small colorful cookies, sold as snacks to the coffee. The name and concept for the store is “coffee-to-go”.

Case 3: Sanitas per aquas

A well established Icelandic mid-range price therapeutic health facility wishes to offer its spa packages on a NYP basis due to harshening competition. The facility is located outside Reykjavik, and the customers are mainly tourists on a short visit, except for some natives and conference groups.

Case 4: Digital distress

New British indiepop band New Young Pollution wishes to sell their debut album via the internet on a NYP basis. The strategy is considered because of a soaring technological level where intellectual property is regarded to be free, but mostly because no record label wants to sign them.

Case 5: Charitable carbs

A Dutch charity organization wishes to sell rice in a lower middle class part of Cape Town on a NYP basis. This is done because of a sincere concern of the poor inhabitants in the surrounding shanty towns where fifty per cent of the organization's profits are to be invested in help centers for crippled children. The area where the sales are conducted and the shanty towns are characterized by the inhabitation of people of similar culture and color.

These cases are fabricated to show different types of products in different environments and contexts. Each case is set up to resemble a possible real scenario where the environmental factors must be taken in consideration, and what is important for the company to consider and deliver in the purchasing process.

5. Analysis

Herein, each of the previously described fictitious cases will be analyzed individually for their applicability with a NYP strategy. A summary will conclude the chapter.

This analysis is built on a model with a content which is not empirically tested. These cases are provided as examples used in the evaluating process when considering a NYP strategy. It is important to keep in mind that analysis is based on interpretations of countries prerequisites for the pricing strategy, as well as the current products' features. Further, the analysis is based on the postulations of when this thesis was predominantly written, May 2008.

5.1 Case 1: Sandy communication

The first logical step to take when using the NYP pricing strategy model is to determine the character of the good, which in this case is tangible (1a). Next, the prerequisites of the environment and the product are analyzed in accordance with the box for tangible products (1a):

The environment

Price will be the helm for most Arab business negotiations (www.dfat.gov.au), so this strategy's foundation is somewhat uncertain for this market to start with. The setting is a B2B environment, which should decrease selfishness, since the customers represents their company. It is deployed in a rich area of a country with almost twice the GDP per capita than Sweden and a very high purchasing power parity (www.cia.gov), so opportunism is believed be at a low level. It is not customary to tip in any situation in Dubai (www.howstuffworks.com), but with a scene of many international businessmen, who are used to an international business environment, the setting could be two folded. For Arab business culture trust is paramount (www.dfat.gov.au), so if trust is established between the Swedish supplier and the domestic customer, where NYP can be a token of trust from the Swedish side, a recurring clientele will be present if a business deal is concluded. The marginal utility for a mobile phone varies for every unique customer. Most individuals have one some have two, and a small amount of people have more than two. The number of mobile

phones in the United Arab Emirate [UAE] was 5 519 million in 2006, for a population of 4 621 399 (www.cia.gov), thus there may be a higher marginal utility for mobile phones in Dubai than in other western countries, especially among business men. On the contrary, this may open up for a more extensive business relation as well, since Arab culture prefers conversations over written correspondence (www.dfat.gov.au). Second-hand value of a mobile phone is pretty high which can be a risk when selling mobile phones on NYP basis, so the actions in the next step, the purchasing process, will be important.

Purchasing Process

The supplier has a wide array of actions at its disposal in order to facilitate the implementation of the NYP strategy. As previously stated, trust is a critical factor when conducting business in the UAE so the company's credibility will be important. There are many ways to improve a company's credibility but of those included among the actions, a profiling of using this strategy might not be suitable for the context, since UAE is a very traditional community, but to emphasize that this deal is something you offer the current customer. This is believed to be done in a very cautious manner, so that it does not get perceived as manipulative where credibility can be lost, and the loss of that customer, or a soaring opportunism lies at risk. This situation will probably not be suitable for a temporary NYP strategy since opportunism can take the company out of business if the supplier is being perceived as secretive and manipulative. A sincere, open dialogue with the customers will be preferred.

In Islamic law, women inhibit the same rights of conducting business as men, but there is a strong tradition which does not take lightly on insincerity (www.dfat.gov.au). In this case the use of an appealing female, if your customers are predominantly male, might be perceived as manipulative and once again credibility will be lost. A strict and expensive corporate look may be the appealing character for this case. The affinity aspect will probably not be as critical in Dubai since this is a multinational area with individuals from all over the globe.

The authorization aspect will be easier in this case since it will be the supplier who seeks the buyer, which will give the supplier the advantage of a selective strategy from the beginning. If the strategy becomes a success and the company becomes established in Dubai, with an recurring and growing clientele, the authorization may be accepted by the market. This may

facilitate the building of a strong brand, but the company must keep in mind that in business in Arab countries, you are seen as a guest operating on Arab ordinance (*ibid.*), so you will probably not be as able to influence your customer to the desired extent.

Payment versatility will be critical, since a B2B situation will require alternative means of payment to cash. This is something which will be vital for any pricing strategy in a B2B context.

What value could an Arab customer be looking for, except from value maximization? It is probable that the setting is much too corporate for altruism to be a factor, but the decreased guilt may have an impact since there is an Arab tradition, as with the Chinese, of maintaining face, and not step on any aching toes. This could be seen as a WTP incliner. As could the possibility to reciprocate since this is a very proud culture.

As for value estimation, this is a business environment where it is reasonable to believe that reasonable beliefs that the customer wishes to see the value of what he is investing in. Hence, a display of capital will be important to the customer in order to increase his WTP. According to statistics, inhabitants in the UAE are very familiar with mobile phones and it is a non-compound good, so all the desired factors of the value estimation could provide an inclined WTP.

Summary

Although a traditional price focused culture, the environment, the market and product characteristics actually look very promising for an implementation of the NYP strategy, but many aspects must be taken in consideration in the buying process. Among the actions, the Swedish company must act in accordance with trust and sincerity to show a high credibility, and maintain a profile as a serious business actor. The strict business situation does not provide any advantages in the satisfying alternative segment from altruism, but the decreased guilt may provide contribution to the WTP. As for the value estimation, the prospects look good for a NYP strategy. To conclude the case, the chances of success actually look promising despite a non-tipping culture with low chances of influencing the buyer, no altruistic behavior and inferior business position.

5.2 Case 2: Liquid evil for individualists

Also characterized by a tangible good, this case will be analyzed in accordance with the box for tangible goods (1a).

Environment

Being situated in a low income area part of a metropolitan city, implies a higher amount of opportunism. On the other hand, coffee is not a luxury item in the US so high purchasing power should not be very important for the case of NYP strategy for a coffee context. The marginal utility is very low for a fresh drinkable product, as is the second-hand value for a product that is preferably consumed while fresh and warm, the uncertainty is just too high. The tipping culture is highly developed in America, and they tip in a manner which is called extrovert tipping (Lynn & McCall, 1997), which is to get extra attention, recognition, and to increase other values than the monetary (*ibid.*) It is not a B2B environment but a business-to consumer [B2C] so the selfishness will be harder to restrain since the customers only represent their own interests, but a recurring clientele would be natural since most people buy their coffee as a part of their daily routine, and some representation will thereby be present.

The Buying process

Judging from the appearance of Americans, and the American jargon, local pride is a big part of the community. This implies that the affinity aspect of the model, with local sales representatives, would most certainly increase the WTP of the customers. A credible NYP profile will also be a vital factor so that the locals will believe in the seriousness of the project. This further implies that an appealing frontline could be perceived as somewhat manipulative even for this setting. Selectivity with the customers, labeled authorization in the model, would probably not be a good idea in a community which is predominantly inhabited by minorities, which may have historical biases against this. But the ability to influence and to build a brand can be vital for bringing in revenues, as will an appealing frontline.

Payment versatility will probably not be a vital factor but an extra service if someone wishes to pay for his coffee with a credit card instead of cash, but this will probably not raise the

WTP a lot. Opportunism could soar if the customers were to be aware of a high future fixed price so if the company decides on this strategy to be temporary, then they should preferably keep it quiet.

As for other values, altruism is believed to be quite high in such a neighborhood, and the decreased guilt could also increase the WTP considerably, especially if it is a local company. The ability to reciprocate to a local cause is also believed to be a WTP raiser.

The fourth and final step of the purchasing process is pretty straight forward, not much capital is put into the product, so it is preferably presented in the interiors or the packaging. It is a non-compound good, and the familiarity will probably keep the customers from underpayment.

Summary

Even for this case the NYP strategy seems to be applicable. As for the previous case, credibility comes a long way. The environmental desired prerequisites look promising, and there are many other values other than monetary value maximization present for American coffee consumers according to the analysis. The important issue for this case would be the actions; to act on the local pride and being seen as a credible contributor to the community, by employing locals, serving coffee with trust and not being too much of a big corporation. This case bears resemblance to the One World Café in Salt Lake City which is a profitable café on NYP basis today (Flandez, 2008).

5.3 Case 3: *Sanitus per Aquas*

This case will be quite different in product character from the first two; it will be defined as an intangible product, because the spa treatment will be considered a service. Therefore the box for intangible product environments (1b) will be used.

Environment

This service can be supplied both to companies and consumers so the B2B setting can not be determined fully, but since the customers are mainly tourists, a B2C setting is most

appropriate. Since the tourists are on temporary visit, the chances of experiencing a recurring clientele are slim except for the locals, and conference groups who may visit the facility more than once. Iceland is not a significant tipping culture (www.howstuffworks.com), but since the customers are mainly foreigners, tipping should be present. The good is of a rival character so this is a risk when applying the NYP strategy. Opportunism will be very costly and probably present since it is considered a luxury good.

The purchasing process

Credibility will probably not be as significant in this case, and a profile of NYP could be contributing to the WTP either. Authorization would exclude their main source of revenue, namely the tourists so it would be disadvantageous. Payment versatility would be a must since a spa treatment is seen as a luxury item and bigger transactions require alternatives to cash. An appealing frontline would probably be an important factor for the facility, since it houses services where physical contact is standard. A spa treatment is time consuming and you need the customers to pay for the occupied time, so the manipulation must be kept low, in order not to aggravate customers and thereby eliminate any WTP. Customer affinity is hard to achieve since the customers are visiting from abroad, but many people wants local experiences when traveling abroad so this may not be a set back in this case. The brand building would in combination with the ability to influence the customers, both by reputation in travelers' guides, and on the scene, help to increase WTP. If a change in strategy is about to take place, WTP will probably plummet, but with most of the customers being foreigners, costs of contracts regarding professional secrecy can be overlooked.

Altruism can to a certain extent provide some inclination to WTP but the biggest contributor would be the decreased guilt. A transaction for the delivery of a product to a customer which the employees invest time in would probably increase the customers' reactive guilt and the feeling of wanting to reciprocate.

As for the value estimation, the expense of acquiring capital intensive inventory would probably be high in relation of how much it can possibly render in WTP. It will be hard to evaluate if this expensive fixed cost can provide a sustainable higher income by affecting the customers to pay more. The spa packages are definitely compound products so the evaluation of each service will be hard for the customers. Especially for first time visitors which many of

the tourists probably are. Product familiarity will probably render a high WTP for the same reason, not many have taken a treatment but they regard it as luxurious.

Summary

The NYP strategy is probably not a favorable pricing strategy in this case. Spa packages are seen as luxury goods, which may bring opportunism, and therefore will be costly for the business. Not many of the actions can be used as a mean of increasing WTP, except for the profiling which should be able to help to some extent. Important for the strategy will be the value estimation, which is the key for this case if this strategy is applied, despite that it is a compound good and the many other obstacles. WTP will probably not reach levels to where a successful, profitable business can be sustained.

5.4 Case 4: Digital distress

This is, like in case 3, a case of an intangible good, but with the distinction that this is an intellectual property. It will be analyzed with a starting point in the environmental desired prerequisites of box 1b.

Environment

The digital distribution of the good implies a good of non-rival character, which means that every unique opportunist can only inflict a certain amount of damage since there is no nominal cost for a free download of digital distributed intellectual property. It is not a B2B environment and anonymity speaks of low representational advantages to the band, hence selfishness is hard to exploit. Recurring clientele is probably something the band will not experience, except for those who downloaded for free and returns to pay for it thanks to a change of mind. According to statistics from the previously described Sheeba spirit store launch of Issa's work, 130 out of 4003 customers decided to do so in that case. A launch of a future album will hopefully render a recurring clientele but this is dependant on the opinion of the last album if it will increase the WTP. If this band becomes a global phenomenon or hit, they will probably be able to reap the benefits of the other tipping cultures outside the British islands, where tipping is custom. So far, the NYP strategy seems to have a good starting position with good opportunities of a fairly high WTP.

The purchasing process

Even in this case, which had vastly different preconditions than the other cases, credibility and profiling will be two important issues to work on for the band. The fact that they are unsigned could be seen as a very genuine band which might help the fellows to bring revenue from the album downloads and at the same time build the brand. Manipulation must be used with caution, since a rumor of a band has the ability to travel fast in digital circuits. Appealing frontline will be a tough question in this case, will customers increase the WTP from an attractive website or will it be dependent on the appearance of the band? An easy to use webpage will probably act appealing to the customers, so the authors bet is on the first alternative. Customer affinity will be fairly easy over the internet since people of the same style, in terms of fashion, can easily get in contact with the band, so the task of adapting the band members to sell more albums will probably just lower the credibility. One very important factor for this strategy will be payment versatility; accepting different cards, accepting transfers of different kinds and such will probably increase the WTP. Authorization would be a bad idea since you would probably just exclude potential transaction partners and freeloaders do not cost anything because of the non-rival character of the good.

There might be many other values than monetary value maximizations for customers to this type of goods, the Radiohead case in the theoretical framework clearly showed this. All the included factors of the box satisfying alternative may affect the customers' WTP in a positive way here; altruistic behavior from other musicians and fans, a decreased sense of guilt thanks to the current piracy discussion in the media, and few returning customers who has changed their mind towards paying for the album.

As for the value estimation it is hard to display the invested capital, one way could be to upload studio pictures and try to present the timeframe of the recording process. The authors are uncertain if this would contribute to the WTP but it is a fairly cheap investment to photograph the studio, and it might help credibility as well. The customers will most certainly be familiar with the product and its value, some will use their illegal downloading as reference, some physical CDs, and some the industry price for downloads. Hopefully less people will use the illegal behavior as reference. Finally, the product is a non-compound good

since the album is downloaded and not separate songs. But if the band had chosen a strategy of separate downloadable songs, the homogeneousness of the good makes it easy to evaluate in terms of price.

Summary

Backed by real cases, a digital good does look like the ultimate product for the NYP strategy, with the characteristics of non-rival goods, and many values for the customers to fulfill. Once again actions to increase and maintain credibility will be vital, but many of the other actions will be hard or inappropriate to implement. As for estimating a value on the product, it will be easy for the customers. The most important factors beside credibility to this case will be the many values other than monetary maximization that the customers can pursue. This case's foremost advantage is the non-rival character of the good, and the vast market which makes a high level of opportunism acceptable.

5.5 Case 5: Charitable carbs

This case takes place on the African continent with a tangible product. Hence, 1a in the NYP pricing strategy model will be used as environmental reference of what is desired for the NYP strategy to be applicable.

Environment

The purchasing power will not be very high in this setting, and opportunism can be a big issue due to a high, and increasing, crime rate (The world factbook, 2008). The business will be conducted in a B2C setting and tipping is not expected to be very present due to the economic character of the area. A recurring clientele can be guaranteed with soaring market prices for rice, which may have a good second hand value in a poor area. The marginal utility can be expected to be high as well, due to the ability to stock-pile since the good is uncooked and good for storage. Opportunism will be the main issue for this case since business is conducted in a poor setting under uncertain world market prices.

The purchasing process

A system of authorization may be hard to uphold where the message is you can pay what you want, but only paying customers will be accepted. This will make credibility plummet, which will increase opportunism further. Even for this case, credibility will make a big difference; an organization with a studious corporate appearance can be seen as manipulative when using the NYP strategy for a charitable cause. Customer affinity could help the company to experience a higher WTP, since a local approach have better chances of being perceived as credible. If the supplier can make the locals develop a good relation to the organization, a profile of applying NYP could outweigh the risk of hordes of opportunists.

The authors do not think an appealing frontline will have any effect in an area where food is about survival and not an issue of what to choose for dinner. According to Charles W.L Hill, a researcher of culture in international business, South Africa has, as a nation between '81 and '90, taken a turn from a secular society towards a more traditional community and from the road to a well-being society to one where survival becomes the number one objective (Hill, 2007). It is just the opposite from the development of the western world, whose trajectory seems to be a general formula for a wealthy nation (*ibid.*). The implementation of a versatile payment system would probably not raise the WTP since credit card transactions would be absent. On the other hand, if the strategy is temporary, opportunism would clean out the stock if the customers knew about it. The ability to influence will be important to make the locals understand that the sustainability of the company is better for them in the long run. For this reason credibility will once again be of big importance.

Not many of the other values than value maximization can be argued for than monetary value maximization, there is simply not enough space for altruistic feelings or guilt. As for the value estimation, it is a simple, non-compound product which is easy to estimate in terms of value, and the customers are definitely familiar with it. Displayed capital will not be applicable to use, since this is more of a retailing business. A display of capital in the good might even work against the organization since rice has a big survival value to the hungry locals.

Summary

These prerequisites are not favorable for a NYP strategy. When the good represents the difference of survival or perdition for a group of individuals with no or little money, opportunism will be too much of a risk for an organization which is intended to provide for itself. If the organization was built entirely on charitable causes, and not required to make profits, then the prerequisites would not be as vital. Not many actions except credibility and affinity can be used for the prolonging of the endeavor either, nor are there any other desired values present than value maximization, which in this context translates to survival. As for value estimation, the project is already doomed, so no further analysis will be conducted. Due to a shortage of food, WTP is probably present, but the low purchasing power and no requirement of doing so prevent it.

6. Thesis conclusions

This is the concluding chapter of this master thesis. A discussion of the findings and relevant thoughts and critique will prelude, followed by what the academic contribution is. Finally, suggestions for further research on the topic are presented. Will future research support the NYP pricing model significantly, discard it or maybe provide necessary complements? Time will tell.

6.1 Discussion and insights

The NYP pricing strategy model was constructed to provide a framework for what issues to consider in the preset environment, as for the products characteristics when applying, or evaluating the applicability of a NYP strategy. The cases provided a chance of testing the model for the different settings and develop a sense of how to use it. Its range of use seems to cover a wide array of products and markets. The authors believe that the theory it is based upon is relevant and well motivated. Opportunism seems to be the biggest threat to an implementation of a NYP strategy, thus the biggest barrier to overcome. Williamson refers to opportunism as one of the biggest transactional costs in economic activity (Williamson, 1979) and this seems to be plausible for the NYP strategy as well. Except for a good of non-rival character, preferable distributed via the internet, where NYP seems to open up a window of increased revenue where intellectual property in many cases are regarded as free, and payment will be seen as a form of voluntarily token of appreciation. The vastness of this market will also work as an advantage to such a strategy as NYP.

WTP will be vital, and the environment with the current events, culture and situation will be determining whether the strategy has any chances of being accepted and not taken advantage of. The presumption of an administrative customer will make the buying process important as well where actions, complementing values and estimations will be the final determinants whether the WTP of the market segment is high enough to support a NYP strategy.

As seen in the different cases, the characteristics of the good, and the situation in the current market will play a vital role if NYP is to be seen as a plausible strategy. If NYP is implemented, credibility as an organization was considered to be important in all cases

regardless if the other prerequisites are vouching for the success of NYP. The non-rival goods which are easy to duplicate at a low cost will have a huge advantage over tangible goods and time costly intangible goods, since the opportunism factor becomes more acceptable since no monetary cost can be tied to each opportunist. A system of authorization to restrain the opportunists would probably increase the WTP but many negative effects can occur like analogues to racism or class societies, which will, similar to the manipulation aspect, aggravate the customers.

To conclude the discussion, NYP is a very interesting strategy to complement the classical price setting strategies and functions, and its application is plausible to some products and markets, and unthinkable to other. Non-rival digital distributed goods seem to be the premium case for success, as well as nice-to-have products with a limited marginal utility and second-hand value in a fairly wealthy setting.

The tough part except for the opportunistic aspects will be the interaction with humans, understanding of the human behavior patterns and gaining the customers acceptance in order to maintain credibility which seemed to be a key of all the cases. Human behavior is hard to predict and according to Barney and Ouchi (1986), transactions differ from time to time even with the same interacting counterparts. Because of this, NYP outcome will be very hard to predict, but the NYP pricing strategy model will be a tool for this evaluation.

6.2 Academic contribution

This thesis is the first to try to set up a model for this pricing strategy, whether it is generally applicable will be a question for further research but the theoretical foundation is well motivated and many theoretical perspectives have been taken in consideration. This is quite a new field of research but with many similarities to existing fields; it is just a question of where to draw the line. The historical aspects of the NYP strategy are interesting as customers are, once again, free to determine what the good is worth.

6.3 Future research

The authors hope that someone will take on the task of testing the model's underlying hypotheses for significance and thereby modifying the framework to a statistically proven foundation which would result in a more accurate outcome.

Demographics are not accounted for in the framework and this perspective might hold keys to the success of the NYP strategy as well. Time aspects prevented the authors of taking this in consideration.

Game and decision theory might hold other interesting theories than the administrative man to base the rationale of the customers upon, as may theories on peer pressure, impulse contra planned purchases, et cetera. The many cultural aspects such as individualistic contra collectivistic behavior, mentioned by Gert Hofstede and Fons Trompemaars among others would be an interesting foundation as to how the customers decide their WTP in a setting of total transactional freedom.

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