Choose Your Own Price: an Exploratory Study Requiring an Expanded View of Price's Functions

Michael Lynn

University of Missouri – Columbia

Chapter prepared for Advances in Consumer Research Volume 17, Editors: Marvin E. Goldberg, Gerald Gorn, and Richard W. Pollay

Abstract

The existing consumer behavior literature generally presents prices as costs which consumers try to minimize and/or as cues which consumers use to judge quality. This limited perspective on price's functions assumes that, if allowed to choose their own price for a good or service of known quality, consumers would always choose the lowest price possible. This assumption is tested in a study examining the price choices of patrons at a restaurant that allowed its customers to choose the price they wanted to pay for entrees they had already consumed. Forty-four percent of the customers chose to pay more than was necessary for their entrees. This finding requires an expanded

view of price and its functions. Additional price functions that might explain this finding are presented and discussed.

Introduction

A perusal of the consumer behavior literature reveals two major perspectives on the functions of price (c.f., Erickson & Johanson, 1985; Lichtenstein, Block & Black, 1988; Monroe & Petroshius, 1981). First, prices are seen as costs which consumers try to minimize. This perspective is borrowed from economic theory which sees price as a constraint on what consumers with fixed incomes can buy. Rational consumers are supposed to maximize utility by paying as little as possible for each good purchased.

Second, prices are seen as sources of information about product quality. Researchers have found that consumers do use price as an indication of product quality, especially when other product information is unavailable (see Olson, 1974 for a review). Thus, lower priced products are not always preferred to more expensive ones. When price is used as an indicator of quality, then high priced goods can be perceived as better buys than low priced goods.

These two perspectives on price are so dominant that they have come to be seen as exhaustive by many consumer behavior researchers. The following quotation from Lichtenstein, Block and Black (1588) is illustrative. They write that:

> "... to the degree buyers make price-quality inferences, they view price in a favorable light, believing that higher prices reflect better materials, finer workmanship, and so on. Because price plays a positive role for these consumers, they are more likely to find higher prices acceptable (John, Scott & Bettman, 1986). To the degree consumers do not make price-quality inferences, price is viewed as a negative element only, reflecting resources yielded" (p. 244).

This restricted view of price and its functions assumes that, given a choice of different prices for the exact same product, consumers would always choose the lowest price -- different prices for a single product could not reflect differential quality, so they should be perceived only as costs to be minimized. The present study tests this assumption. More specifically, it examines consumers' price choices at a restaurant that allowed its customers to choose the price they wanted to pay for entrees they had already consumed.

Of course, there is already some evidence that consumers will pay more than they have to for a given good or service Many people give money to public television stations even though such contributions are not required to have access to the stations' programs, and even though individual contributions are not large enough to seriously impact the quality of the stations' programming. Similarly, people regularly leave tips to waiters and waitresses even though the services have already been received and even though a gratuity is not legally required. These behaviors challenge the restricted view of prices as only costs and/or cues-to-quality, but they differ from most economic purchases in several ways that may limit the need for an expanded view of price's functions.

First, public television stations are nonprofit organizations while most businesses are not. It is possible that people will voluntarily contribute to non-profit organizations but that they will not make such voluntary contributions to the profits of businesses. Second, tips are given to individuals while prices are generally paid to business institutions. People may be willing to give what are essentially monetary gifts to other people but may not be willing to give similar gifts to businesses. Finally, both tips and donations to non-profit organizations are supported by social norms while paying more than necessary to businesses is not. It is possible that people are willing to pay more than they have to for goods and services only when such actions are called for by social norms.

By exploring people's willingness to pay a restaurant more than necessary for its entrees, this study provides a more general test of the restricted view of price's functions. If some of the customers at the restaurant studied chose to pay more than they had to for their entrees, then price must have served as more than a cost and a cue to quality for those customers. This would indicate that the restricted view of price as only a cost and/or a cue to quality is inadequate to fully understand price's functions even in transactions with profit oriented businesses.

METHOD

Data Source

El Matador was a Mexican restaurant in a large Midwestern city that allowed its customers to choose the price they wanted to pay for a select group of entrees (hereafter referred to as "special entrees"). After finishing their meals, dining parties who ordered these entrees were given a sheet of paper with a set of four prices per type of entree (see Exhibit 1) and were asked to circle the price they thought appropriate. Usually, only one choice per table was permitted for each type of special entree regardless of how many people at the table ordered that item. [One apparent exception was omitted from this study.] However, dining parties that ordered two or more different types of special entrees could make two or more price choices. Customers' entrees, price choices, and other information were recorded on the restaurant's checks. The owner of this restaurant allowed me to borrow the checks written during the month of May 1986. The evening checks that contained at least one special entree were used as the source of data in this study.

Variables

Several variables were recorded from the checks. One set of observations was made per check except in cases where it was clear that two or more checks came from a single table. In such cases, the checks were ignored for being non-independent. Also ignored were several illegible, or otherwise unclear, checks. The variables recorded from those checks providing usable, independent observations for this study were:

(a) the identity of the server (the coding identified four individual servers and a group of several other servers who had only a few customers each),

(b) the number of people at the table,

(c) the number of alcoholic drinks ordered,

(d) the number of different types of special entrees ordered,

(e) the number of special entrees of each type ordered,

(f) the general expensiveness of each type of special entree (different special entrees had different price alternatives and the lowest price choice allowable was recorded), and

(g) the price customers chose to pay for each type of special entree they ordered (the rank order of the selected price was recorded with 1 representing the lowest price alternative and 4 representing the highest price alternative).

RESULTS

Description of Price Choices

A frequency distribution of price choices was tabulated for those dining parties with only one type of special entree (see Table 1). Eighty-two (or 56%) of these one hundred forty seven people chose to pay the first (or lowest) price for their special entrees. However, sixty-five (or 44%) of these people voluntarily chose to pay more than they had to -- forty-one people chose to pay the second price, twenty-one people chose to pay the third price, and three people chose to pay the fourth (or highest) price. The second, third and fourth prices respectively were 16%, 28% and 38% more than the first price, so these sixty five people chose to pay meaningfully higher prices than they were required to. Since these price choices were made after the entrees had already been consumed, the higher than necessary prices were not paid in the hope of getting higher quality food or larger portions. Apparently, price served some other functions for these customers.

Predicting Price Choice

Separate regression analyses were performed to explore the relationships of price choice (among those having only one type of special entree) with (a) the identity of each dining party's server -- server identity was dummy coded, (b) the number of people in each dining party, (c) the number of alcoholic drinks ordered by each dining party, (d) the number of entrees each dining party's price choice applied to, and (e) the general expensiveness of each party's special entree. For these analyses, people's price choices were converted to percentages of the lowest price -- prices 1 through 4 were assigned values of 100, 116, 128 and 138 respectively.

Only the server'=s identity and the general expensiveness of the special entree significantly predicted price choice. People's price choices were related to their servers' identities [$F(4, 140)= 3.81$, $p<.006$] and this relationship remained at least marginally significant after partialling out the effects of the other independent variables 1$F(4, 124)= 2.36$, $p<.06$].

People also chose higher prices the more expensive their special entrees were r=.17, F(1, 145)= 4.23, p<.05] and this relationship remained significant after partialling out the effects of the other independent variables spr=.20, F(1, 124)= 5.67, p<.02]. People's price choices were not related to the number of people at the table [F(1, 132)= .13, n.s.], the number of alcoholic drinks ordered [F(1, 145)= 1.26, n.s.], or the number of entrees each party's price choice applied to IF(I, 145)= 1.09, n.s.].

Multiple Price Choices

Twenty-eight dining parties in this study ordered two different types of special entrees and, thus, had two different price choices to make. Twenty two (or 39.3%) of their fifty six choices were for larger prices than necessary -- i.e., for prices 2, 3 or 4. A correlation between the two price choices made by these dining parties was highly significant [r=.91, n=28, p<.0001], suggesting that their decisions were fairly consistent. However, six (or 21%) of the dining parties chose different price alternatives for their different types of special entrees.

DISCUSSION

Many of the customers at this restaurant chose to pay more than they had to for entrees they had already consumed. This finding cannot be explained from the limited perspective of prices as only costs and/or cues-to-quality that predominates the consumer behavior literature. This finding requires an expanded view of price and its functions. Two other potential price functions might explain this finding -- prices may be used to display and wealth and/or to equitably compensate the providers of goods and services.

Impression Management Function

The customers at this restaurant may have paid more than they had to for their entrees because of impression management concerns (ala Schlenker, 1980; Tedeschi, 1981). Veblen (1889/1965) noted that the wealthy often buy expensive goods whose costs cannot be justified by their functional characteristics. He concluded that the wealthy buy these over-priced goods as a way of displaying their wealth -- a phenomena he called conspicuous consumption. It is possible that price's impression management function is more general than this. People may also prefer moderate prices over lower ones in order to avoid appearing poor or cheap.

The impression management function of price may also help explain why people's price choices were related to their servers' identities and to the general expensiveness of their special entrees. First, the customers at the restaurant may have been more concerned about impressing some servers than others because some of the servers may have been more attractive, more judgmental, etc... than were the others. If customers did choose higher prices in order to make favorable impressions and if servers did differ in the extent to which they evoked impression management concerns, then it makes sense that customers' price choices were related to who their servers were.

Second, some customers may have been dispositionally more concerned about impressing their servers than were other customers. Those customers who wanted to impress their servers may have tried to do so both by ordering more expensive special entrees and by choosing the higher price alternatives for those entrees. Thus, the relationship between price choice and the general expensiveness of the special entree may be due to their joint dependence on customers' concerns about impressing servers.

Very little research has examined the behavioral effects of prices' status and public-image implications. However, these aspects of price may prove important in understanding several types of consumer behavior. Donating to charities, tipping servers, redeeming coupons, comparative shopping, selecting stores, and choosing brands are all behaviors through which consumers determine/select the prices they pay for things. If people use price as an impression management tool, then all of these behaviors may be affected by the desire to appear wealthy and/or by the desire to avoid appearing poor or cheap.

Compensatory Function

The customers at this restaurant may have paid more than they had to for their entrees because they felt that the higher prices were fairer than the lower ones -- i.e., were more equitable compensations for the entrees. Equity theorists (e.g., Adams, 1965; Walster, Bersceid & Walster, 1976) argue that society socializes people to feel anxiety or distress when in inequitable exchange relationships. Exchange relationships are said to be inequitable when the various participants' outcomes relative to inputs are unequal. According to the theory people attempt to minimize their own psychological distress by maintaining (or restoring) equity in their relationships with others.

The restaurant in this study labeled price alternatives 1 through 4 "great", "fantastic", "award winning", and "best I've ever had" respectively. These labels may have suggested to customers that they were expected to choose the prices for their entrees on the basis of how much they enjoyed those entrees. Such a decision rule would be consistent with equity theory and could explain why some customers chose to pay more than they had to. Equity theory may also explain why six out of twenty-eight dining parties selected different price alternatives for the different types of special entrees they ordered -- those six dining parties may have considered their different entrees to be of unequal value and may have chosen to pay different prices in order to equitably compensate for the different values received.

Equity theory has received a great deal of empirical support in the areas of business relationships, exploitative relationships, helping relationships, and intimate relationships (see Walster, Walster Nc Bersceid, 1978, for a review), but has been applied to consumer behavior and to the pricing of consumer goods and services only rarely. One domain of consumer behavior to which equity theory has been applied is restaurant tipping. Although several early studies failed to find a relationship between service quality and tip amount (c.f., Crusco & Wetzel, 1984; Lynn, 1988; Lynn & Latane, 1984; May, 1978), the measures of service quality in many of these studies were of questionable sensitivity and/or validity. A more recent study in which customers rated specific aspects of their own service did find that people tip more the more favorably they perceived their service (Lynn & Grassman, 1989). This result is consistent with the hypothesis that consumers will pay more than they have to for goods and services in order to equitably compensate the providers of those goods and services, but more research is needed to rule out alternative explanations for this result and to assess its generalizability. If people do want prices to equitably compensate sellers, then this compensatory function of price may prove important in understanding and manipulating price acceptance.

REFERENCES

1) Adams, J.S. (1965). Inequity in social exchange. In L. Berkowitz (Ed.), Advances in Experimental Social Psychology, 2, New York: Academic Press.

2) Crusco, A.H. & Wetzel, C.G. (1984). The Midas touch: The effects of interpersonal touch on restaurant tipping. Personality and Social Psychology Bulletin, 10, 512-517.

3) Erickson, G.M. & Johanson, J.K. (1985). The role of price in multi-attribute product evaluation. Journal of Consumer Research, 12, 195-199.

4) Lichtenstein, D.R., Bloch, P.H. & Black, W.C. (1988). Correlates of price acceptability. Journal of Consumer Research, 15, 243-252.

5) Lynn, M. (1988). The effects of alcohol consumption on restaurant tipping. Personality and Social Psychology Bulletin, 14, 87-91.

6) Lynn, M. & Grassman A. (1989). Restaurant tipping: A payment for service? Unpublished manuscript, the University of Missouri-Columbia.

7) Lynn, M. & Latane, B. (1984). The psychology of restaurant tipping. Journal of Applied Social Psychology, 14, 551 -563.

8) May, J.M. (1978). Tip or treat: A study of factors affecting tipping behavior. Unpublished master's thesis, Loyola University of Chicago.

9) Monroe, K.B. & Petroshius, S.M. (1981). Buyers' perceptions of price: An update of the evidence. In H.H. Kassarjian 12 T.S. Robertson (Eds.), Perspectives in Consumer Behavior, Glenview, IL: Scott Foresman & Company.

10) Olson, J.C. (1974). Cue properties of price: Literature review and theoretical considerations. Paper # 20, Working Series in Marketing Research, College of Business Administration, The Pennsylvania State University.

11) Schlenker, B.R. (1980). Impression Management: The Self-Concept, Social Identity and Interpersonal Relations. Monterey, CA: Brooks/Cole.

12) Tedeschi, J.T. (1981). Impression Management Theory Psychology. New York: Academic Press.

13) Veblen, T. (1899/1965). The Theory of the Leisure Class. New York: A.M. Kelly.

14) Walster, E., Berscheid. E. & Walster, W.G. (1976). New directions in equity research. In L. Berkowitz and E, Walster (Eds.), Advances in Experimental Social Psychology, 9, New York: Academic Press.

15) Walster, E., Walster, G.W. & Berscheid, E. (1978). Equity: Theory and Research. Boston: Allyn & Bacon

Table 1. Frequency distribution of price choices among customers with only one type of special entrée.

Price	Frequency	Percent
1. “Great”	83	55.8
2. “Fantastic”	41	27.9
3. “Award…”	21	14.3
4. “Best…”	3	2.0

EXHIBIT 1

El Matador Restaurant
Serving The Finest Mexican Food & Drinks

4510 Kenny Rd
Columbus, OH
459-3663

Choose Your Own Price

There is nothing a vendor in Tijuana would rather do than bargain with a Yankee. Trying to be as authentic as possible, we decided to carry on this tradition--"North of the Border."

Now that you've experienced the taste of Mexico, it's time to enjoy the tradition. Choose your own price! Simply (1) Grasp your pencil, (2) Find your item, (3) Draw a circle around your chosen price, (4) Tell your friends that they too can choose their own price at EL MATADOR.

READY, SET, GO!!!	GREAT	FANTASTIC	AWARD WINNING	BEST I'VE EVER HAD
10 Inch Mexican Pizza	$4.70	$5.45	$6.00	$6.50
Smothered Burrito	$3.20	$3.70	$4.10	$4.40
Plato De Sopapilla	$4.10	$4.75	$5.25	$5.65
El Bandito	$3.95	$4.60	$5.05	$5.45
Burrito Con Queso	$3.20	$3.70	$4.10	$4.40
El Puerco	$8.25	$9.55	$10.50	$11.40