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Fair Play via Fair Pay

A PWYW Pricing Strategy for Fairtrade

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It's no secret to anyone that knows me that I have a passion for work that (also) benefits third world countries. Some joke about it, others share it, and some fear that it will stand in the way of reaching my potential. To me, it is something natural that I have always incorporated in my commercial studies, and have once again tried to achieve in my final coursework.

Nevertheless, even passions don't come easy, and numerous wrinkles on my forehead will stay with me forever reminding me of the challenges that came with creating, writing and implementing this paper. Completing this thesis is hardly a job done alone, and for that I want to thank all involved. I am sincerely grateful to my coach and co-reader Christoph Fuchs and Pushpika Vishwanathan for their thorough support, challenging nature, and guidance in the whole process. Also the companies that enabled me to conduct the experiment made this thesis. Without their help this would not have been possible. Finally, I would like to thank my family and friends for their continuous positive influence in my life!

Enjoy the read...

Note:
The author declares that the text and work presented in this Master thesis is original and that no sources other than those mentioned in the text and its references have been used in creating the Master thesis.

Executive Summary

Headlines in today's top business journals talk about the prevalence and importance of ethics and social causes. Also on TV and on the supermarket shelf there is a surge in the number of social product labels and natural product offers. As a consequence to this claimed increase of consumer interest in and awareness of environmentally friendly alternatives, companies are increasingly investing in corporate social responsibility (CSR) projects and marketing them to the outside world. Despite these investments, there has been little proven uplift in the sales of socially responsible companies and social brands. Marketers have experimented with various promotional methods and product labelling to close the attitude-behaviour gap existent in consumers; however the general higher price to retain profitability seems to be maintained and continues to deter sales.

This thesis investigated the use of a pay-what-you-want (PWYW) pricing strategy to increase the sales of Fairtrade hot chocolate, as part of a CSR programme by the Coffee Corner café at the Erasmus University of Rotterdam, The Netherlands. The Fairtrade label guarantees that manufacturers in the Third World receive a sufficiently high wage and basic labour rights are adhered to. PWYW is a novel, psychological pricing strategy that allows the consumer to pay any price they want for the product that has to be accepted by the seller without exception.

It was demonstrated that consumers did value the Fairtrade label and were willing to pay a 15% higher price on average in comparison to the normal alternative. Hence, Fairtrade products do carry value in the eye of the consumer, but consumers are unwilling to bear the full burden of the extra costs associated with producing and supplying more socially responsible products. Moreover, when PWYW was put into practice, revenues were higher under the situation where the Fairtrade product was under this pricing strategy. It appeared that consumers that valued the cause were willing to provide a larger support in monetary terms to show this; consumers that did not, likely switched their purchase to the normal alternative to avoid any post-purchase distress. Such flexible payment schemes could therefore increase participation and donation amounts in charitable settings or other CSR schemes. Although the influence of others has often been deemed important in social causes, this research did not find a similar effect. Product choice and price determination in the

purchase setting were not found to be affected by the importance the consumer placed on being accepted, nor by the number of people that they were surrounded by at the counter. Therefore it appears that CSR initiatives should be mainly targeted at the individual and appeal to them.

Contrary to previous evidence, this research found the quality perception of the final product was not impacted by changes in pricing strategy or implementation of a CSR project. Hence benefits accrued of such initiatives seemed not to have a significant impact on the intangible benefits to the firm, but more on the tangible fiscal benefits such as the sales revenues.

Though no consumer demographic was identified for the ethical shopper, the significant effect of empathy on choosing the Fairtrade alternative in the purchase setting indicated that attitudes have more impact in ensuring a CSR project is effective. Companies should look at the interests of their target group prior to implementing a certain social venture to ensure it is well accepted and fulfils its purpose.

This thesis therefore contributed to existing research in two important ways. Firstly, the previous findings evolve current literature on ethical products, demonstrating that the consumer's purchase behaviour is in line with their attitudes by their willingness to spend more for social brands. However, managers should learn to share the costs with consumers when launching similar initiatives and embarking on a CSR project. Secondly, this thesis has increased the generalisability and applicability of psychological pricing strategies by being one of the first to apply a PWYW pricing strategy to ethical products. Also as part of a CSR project this pricing condition seemed to be effective, pointing future researchers to continue to explore contexts in which such pricing schemes work.

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1. Introduction

"Ethics is about how we meet the challenge of doing the right thing when that will cost more than we want to pay. There are two aspects to ethics: the first involves the ability to discern right from wrong, good from evil, and propriety from impropriety. The second involves the commitment to do what is right, good and proper. Ethics entails action." (Maxwell, 2003)

Recent studies on ethical consumerism suggest that consumers are increasingly able to fulfil the first aspect to ethics Maxwell identifies. Survey results indicate that purchase behaviour no longer solely relies on the product's functionality but also on *how* and *by whom* these products are made (BBC News 2006). A study from the Cooperative Bank in the United Kingdom revealed 57% consumers have recommended a company for its responsible reputation, and 35% have felt guilty about unethical purchases (Kleanthous & Peck, 2006), while 66% of consumers indicate a specific interest in purchasing Fairtrade (The Nielson Company, 2008). Such trends in demand have resulted in the intentional ethical veiling of specific products for commercial reasons, moving them from marginal to mainstream through means of a much wider range of products, namely: coffee, chocolate, tea, clothes, honey, bananas and other fruits, roses, wine, nuts, vegetables, olive oil, *et cetera*.

Nevertheless, the commitment and action stressed by Maxwell is lacking. In a seemingly paradoxical nature it appears consumers overstate the importance of ethics in their purchase decisions and are not, in practice, willing to pay the higher prices that, to date, come with ethical consumption. For example, total sales figures of Fairtrade products are a mere 0.01% of global food trade (Witkowski, 2005; MacGillivray, 2000 as mentioned in de Pelsmacker, Driesen, & Rayp, 2005a), and organic products occupy a niche of 1.5 – 2% (Wier & Calverley, 2002). It has been suggested that perhaps the commitment to ethical consumption is less than the commitment to having a comfortable personal life (Strong, 1997). Alternatively, consumers may not be willing to pay more for convenience products whose functional benefits are identical to lower priced goods. Albeit the fact that consumers are realising that price is less important than value, Makower states that consumers will only choose a fairer product provided it costs the same, does not require effort to find and buy, and is at least as good as the alternative (Franklin, 2008).

In light of these possible explanations, and the fact that ethical consumers are inconsistent in their purchase behaviour, managers need to understand how to translate moral principles into buying patterns that are not simply based on a temporary news story or campaign (Strong,

1997). Therefore, it is vital that companies and governments understand why consumers purchase such products, their willingness to pay a premium for moral product attributes, the consumer response to alternative pricing strategies, and personality variables that affect this response. Given the current financial crisis, buyer price perceptions and consciousness are an even more pressing concern, especially for more expensive ethical produce. Moreover, findings will enable more effective pricing, and segmentation of consumers by means of the degree to which they buy and use Fairtrade products when exposed to alternative pricing strategies, also positively affecting a firm's marketing communications targeting strategies.

Companies attempt to differentiate themselves from their competitors through their products and services, or their marketing strategies. As mentioned above, many companies have already altered the composition of their products to include socially acceptable raw materials, including: the adoption of Fairtrade cotton by Marks and Spencer, Top Shop, Sainsbury's and Oasis in the UK; the launch of the biological and Fairtrade 'puur & eerlijk' private-label brand by the Dutch supermarket chain Albert Heijn; the use of Fairtrade coffee by Starbucks; the use of Fairtrade cocoa and sugarcane by Koninklijke Verkade and Nestlé, and many more. These structural changes, in addition to giving the opportunity for differentiation, enable firms to charge higher prices for their products (Voormolen, 2009). Hence, pricing is a vital element of a company's marketing strategy that aims to capture the value different consumers are willing to pay for a product in order to maximise overall company profitability. In the case of Fairtrade this would additionally result in a greater flow of capital to small-scale Fairtrade farmers in the Southern hemisphere.

Currently, Fairtrade products tend to be priced higher than equivalent non-Fairtrade products, which is likely to be the reason for the existing attitude-behaviour gap in ethical purchasing. For example, consumers need to pay 30 to 80 percent more for Fairtrade bananas (in the European Commission and Japan respectively) than for conventional bananas, a price accepted by few (Food and Agriculture Organization, 2001). Different and innovative pricing strategies may alter reactions among (ethical) consumers, which may help facilitate the growth of moral and ethical purchase habits. By extension, increased and consistent altruism will benefit the dependents in the South, who take the hardest blows from society. Therefore, it is interesting to test whether different pricing mechanisms have a positive effect on the desired price premium consumers are willing to pay for a moral product attribute.

In order to do so, several sub questions are interesting to research including:

(1) How much larger (or smaller) is the return on ethical products when the control of determining the premium lies in the hands of the consumer, versus paying a fixed stated price?

(2) Which consumer personality variables can reverse the impact and effectiveness of alternative pricing strategies?

2. Literature Review

2.1 The Rise of Ethical Consumerism

Although altruistic behaviour has been posited to reside in human nature (Hauser, 2006; Smith, 1759), the act of incorporating this altruism into daily consumption habits is a relatively novel concept. Contrary to evolutionary and vernacular altruism (for insights see Sober, 1988), ethical consumerism entails intentionally purchasing basic products that are not harmful to the environment, animals and people that produce them.

The concern for ethics has increased among businesses as well as consumers over the years (McKinsey & Company, 2007; Wier & Calverley, 2002; Strahilevitz, 1999; Rode, Hogarth & Le Menestrel, 2008; Zak, Stanton & Ahmadi, 2007). Public scepticism about large corporations' corporate social responsibility (CSR) claims is pressuring firms to address social, environmental, and governance issues in novel ways (McKinsey & Company, 2007; Crowe & Williams, 2000). This lack of trust is influencing consumers to make-up for the deficiency in accepted responsibility by taking part in ethical consumption. Moreover, the trends of environmentalism and health-consciousness have further disposed the consumer to incorporate these products in daily purchase behaviour due to the search for food safety and quality (Wier & Calverley, 2002). Hence, as expected, interest in organic food products has multiplied in the developed world (Wier & Calverley, 2002) and sales for ethically labelled goods escalated approximately 42% in 2002 in the United Kingdom (Rode *et al.*, 2002); in the United States approximately $199 billion was donated to charities (Zak, Stanton & Ahmadi, 2007), and cause-related marketing initiatives – such as that undertaken by Proctor & Gamble by donating one tetanus shot to a pregnant woman, or woman of child-bearing age, per pack of Pampers diapers bought – are increasingly common (Stahilevitz, 1999). Furthermore, the fact that there are more ethical brands today that have developed into legitimate brands suggests that there are enhanced levels of information and brand awareness (Grunert, 2005), as well as accompanying positive associations.

As ethical awareness has increased, ethical values are increasingly a factor consumers consider when making buying decisions. Ethical values, such as a fairer wage for producers in the Third World (Kanji, 2008), animal rights, the environment, and labour practices (Auger, Devinney, Louviere & Burke, 2008), were found to be significant influencers for people

buying ethical alternatives. Other studies support these findings stressing that consumers have come to care about more than merely the functional benefits attained from consuming products, including safe and honest production processes, and the retention of dignity and autonomy of producers (de Pelsmacker *et al.*, 2005b). The degree to which products are considered socially responsible and their respective prices are the largest determinants of purchase according to recent findings by Gielissen and Graafland (2009). Alternatively, Arnot, Boxall, and Cash (2006) found that ethical attributes may have been the main influence on buying behaviour for Fairtrade coffee, as opposed to price. Similarly, Harriet Lamb concludes an ethical shopper would choose an ethical version of the product over a regular product, albeit it's higher price, as they are concerned about more than price (Jones, 2004).

There are however numerous reasons for which consumers purchase moral products beyond ethical considerations. A specific analysis of Fairtrade coffee by Pelsmacker *et al* (2005a) identified the main brand of a product, and its flavour as the most important determinants influencing purchase; the presence of the Fairtrade label was only of mediocre importance, followed closely by packaging and blending. Sociology posits that a brand a person buys transcends to the individual identity (Adams & Raisborough, 2008; Connolly & Shaw, 2006; Maynard 2007; Griskevicius, Tybur & van den Bergh, 2010), and reflects their beliefs and value systems (Jones, 2004); therefore the enhanced image one may feel upon purchasing more expensive moral brands may also influence one's purchase decision (Boulstridge & Carrigan, 2000; Giskevicius *et al.,* 2009). This is further supported by findings by Maynard (2007) that reveal the predominant reason for buying the hybrid Toyota Prius is because "it makes a statement about me...[showing the world that I care]."

Though it is frequently claimed by researchers and customers that buyers attach value to the ethical attributes, the actual buyer side to the exchange does not appear to manifest this (Hunt & Vitell, 1992, and Folkes & Kamins, as mentioned in Carrigan & Attalla, 2001; Strong, 1997). In fact, Makower (2007) commented that ethical products are only bought if they attain all points of parity with other products (Franklin, 2008). Consumers are mainly concerned about price, quality, value of the product, and convenience (Boulstridge & Carrigan, 2000; de Pelsmacker, Janssen, & Mielants, 2005b; Carrigan & Attalla, 2001; Memery, Megicks, & Williams, 2005), especially when buying a commodity. Within the current ethical era, therefore, it still appears that consumers stress the importance of price for which products and brands to buy. Kramer (1990) and Cook (1991) suggest that this conceivably prevails due to

the high price premium attached to ethical products, and that previous research overestimated the purchase intentions of consumers and their willingness-to-pay, as they were not obliged to make trade-offs similar to those faced in reality, thus were not considering freshness, taste, appearance, and budget constraints. The fact that many ethical brands have been on the market for decades, such as Stichting Max Havelaar which was founded in 1988, yet do not have large market shares indicates there is a discrepancy between consumer attitudes and actual purchases for these product lines. A closer look into consumer product reviews shows that many consumers complain about the higher costs of ethical products; Moa Green Balm for instance was found to "cost more than most balms" (Ethical Product Review, 2008). Moreover, Bart Lacroix (2010) – founder, director, and manager of the 1 % CLUB, an organisation that sets up projects in developing countries, by utilising the expertise of consumers in the West, via the internet – believes many ethical brand logos have acquired a brand reputation of being too expensive due to persistent association between the brand and the price premium; hence have a reverse effect on facilitating purchases when observed on the product by the consumer. The pricing strategy applied to ethical products, and consumers' reactions to them, should therefore be further analysed.

This research paper will limit the discussion to Fairtrade as the ethical product because on the surface this form of trade appears to be a novel, market-driven initiative that targets a growing segment of consumers willing to pay higher prices for socially responsible product attributes; however, a closer look reveals its minimal impact to date, and the rare, myopic focus on the supplier-side of trade in today's consumer society. Fairtrade, in contradiction to free trade, is a movement which aims to create a level playing field for trade between First and Third World countries by reinforcing the importance of the source of production and its compensation. A small-scale analysis would reveal that Fairtrade aims to guarantee that poor, small-scale farmers receive a minimum above-market wage; hence average Fairtrade product prices are also higher (Strong, 1997; Witowski, 2005; Rode *et al.*, 2008). In the absence of Fairtrade, the commodity crisis is causing a race-to-the-bottom for the price of commodities – due to the nature of these products, many commodity producers are unable to absorb price shocks when they occur, thus putting them at substantial risks of exploitation by large multinational companies (MNCs) and the increasing power of consolidated retailers. The aim of Fairtrade is to prevent this. It is important to note that Fairtrade is a certification system whereby a label is placed on the package of a firm's products so that consumers can identify when these meet the agreed Fairtrade standards. The standards to which businesses and products must adhere

to so as to carry the Fairtrade label include: raw materials must be sourced from FLO-CERT[1] certified producer organisations, the supply chain must have been monitored by FLO-CERT to ensure integrity (buyers must adhere to paying the minimum market price for the desired commodities plus a development premium, and must agree to finance 60% at the beginning of the harvest as credit to the farmer organisation), and sufficient Fairtrade ingredients must have been used in the manufacturing process (for more detailed insights please see http://www.fairtrade.net/standards.html).

Contemporarily, vendors appear to base the price of their Fairtrade certified products on a form of cost-plus pricing to reflect the elevated (yet fair) raw material costs, the premium given to the Fairtrade cooperative to develop itself, and the higher supply chain costs due to lower export volumes (The Fairtrade Foundation, 2005). As Frans van de Ven (2012) – the current Representative of the Food and Agriculture Organization (FAO) in Cape Verde – critiqued, investigations into the Fairtrade value chain have identified many high costs associated with flying experts from overseas to small-scale farms to qualify them for the Fairtrade label, as well as unannounced visits for verification purposes, which further increase costs. This highlights the complex and costly nature of Fairtrade initiatives.

Retailers who need to pay these premiums will aim to pass them on to their customers in the form of augmented prices (The Fairtrade Foundation, 2005). Bezencon and Blili (2009) investigated strategies of Coop, McDonalds Switzerland, Switcher, La Semeuse, and Magasin du Monde – retailers and brands that carried Fairtrade products – to discuss, amid other strategic variables, how prices are set for these ethical goods. McDonalds Switzerland did not advertise that it used Fairtrade certified coffee since this information was solely directed at stakeholders other than the consumer, and Magasin de Monde had no influence in manipulating prices for its products. Hence, eliminating these firms concludes that out of the three businesses that were targeting ethical consumers and were able to manipulate the price for their Fairtrade certified products, three charged a price premium on them. As previously discussed, similar findings emerged from practical examples and observation. It is likely that by applying such a cost-plus based pricing strategy, the price competition fostered among conventional and Fairtrade certified products has an inhibitive effect on Fairtrade purchases.

[1] Fairtrade International's (FLO) worldwide certification body that takes care of producer certification and inspection. It is part of a bigger organisation, FLO, which develops Fairtrade standards, licenses buyer and label usage and markets the Fairtrade label in consumer countries.

In fact, Lacroix (2010) asserts that the customer focus on price leads to the consumer choosing the conventional product, and the only way to eliminate this is by making the use of Fairtrade mandatory by law, thereby eliminating this prevalent price competition.

Exploiting the inherent 'moral charge' manifested within the Fairtrade certification mark in the eyes of the consumer, and translating it into sales would be valuable to practitioners and small-scale farmers alike. In opposition to products within the same product category, Fairtrade certified products carry social equity which is likely to carry additional emotional value to the consumer. This is likely to enhance the value proposition in the eyes of an ethically-conscious consumer, thereby increasing the likelihood of purchase. Research into the value proposition indicates consumers' perceptions of the value strategy (value equity, brand equity, and relationship equity) directly and indirectly affects loyalty and future sales (Vogel, Evanschitzsky & Ramaseshan, 2008). Value equity portends to the perceived ratio of what is received – the produce – versus what is given up – money; for Fairtrade it is likely that the value equity is lower than similar non-Fairtrade certified products due to its higher price. Brand equity is the value added to the brand due to intangible factors; the Fairtrade certification mark has increased in awareness without mass media campaigns due to the fact that it is strong, unique, and desirable, therefore this equity driver is likely to be high. Relationship equity pertains to the links created between a brand and a company; though it is hard to draw any conclusions on this dimension, Fairtrade certified products attempt to make the supply chain from the producer in the South, and the consumer in the North more transparent, which may have an impact in driving up the level of relationship equity. Kleanthous and Peck (2006) identify an additional equity driver that is growing rapidly, namely social equity. Social equity depends upon ethical practice, social engagement, employment ethos, service orientation, social responsibility, emotional proximity, and social utility (*ibid*, based on Young & Rubicam's Brand Asset Valuator), which are all very high for Fairtrade certified products. The sum of all of these value drivers indicates that the value proposition for Fairtrade certified products is relatively high compared to non-Fairtrade certified products, hence positively influencing loyalty and sales. The fact that the food industry is a very saturated market indicates the need for points of difference to maintain a competitive advantage, such as the social equity naturally embedded in the Fairtrade certification mark. This implies that from a value-based pricing perspective, the prices charged for these products can be higher and consumers should be willing to pay for them in exchange for the additional value received.

Contrary to the price-value trade-off discussed above, behavioural finance has suggested consumers are rational and therefore select the product offered at the lowest price for the largest quantity (Friedman, 1967; Connolly & Shaw, 2006). Such a tendency to overweigh rational attributes, while minimising the importance of more subjective attributes (e.g. the shape or origin of a product's raw materials), even when there is a preference for a specific subjective attribute, may be caused by the fact that price is an easily distinguishable factor to the consumer, free of bias (Hsee & Zhang, 2004). In addition, rational consumers use easy heuristics when undergoing purchases, such as using a fixed proportion of income for certain product categories (Hall, 1990). This rational consumer seems to be present in many studies conducted within the Fairtrade field: Kanji (2008) noted that the second major reason consumers did not purchase Fairtrade was due to the higher costs, and that consumer studies revealed on average only 20% of people in Europe would pay more for Fairtrade, regardless of the positive social and environmental consequences; Carrigan & Attalla (2001) stated that consumers do express affinity to ethical goods, but will only buy them if they themselves are not inconvenienced, and get the same price and quality; De Pelsmacker, Janssens and Mielants (2005b) highlighted reducing the price of Fairtrade would be one of the most influential measures in increasing the number of consumers that would buy them and the frequency with which these products would be bought since all segments of ethical consumers detested the elevated price of Fairtrade products; Shaw and Clarke (1999) further stress the cost restraints faced by many consumers and that when ethics and price concerns conflict (as they do with Fairtrade given the option of competing products similar in function, yet lower in price) either quantity gets restricted or the cheaper non-ethical product alternative is selected. This rational economic perspective implies that motivating people to turn to more socially-orientated purchase habits would require such products to become cheaper, more efficient, and provide the consumer with incentives (Griskevicius *et al.* 2010).

In extension to the theoretical discussion of the extremes above, in practice consumers seem to seek a middle-ground since the price of Fairtrade certified products is frequently at the upper-end of the product category's price range. Twenty percent of people believe that the benefits of ethical product attributes are worth paying a premium for (Nielsen, 2007; Auger *et al.*, 2008), although very few agree strongly to this. Research reveals that consumers are willing to pay a certain premium on Fairtrade products, but that this premium is lower than what is currently being charged in the marketplace. Only 10% of Belgian consumers were

willing to pay the current social premium for Fairtrade products, which are set at 27% (de Pelsmacker *et al.,* 2005a). In fact, Belgian and US consumers were willing to pay a 10% and 3% premium on Fairtrade certified coffee respectively (de Pelsmacker *et al.,* 2005a), whereas Danish consumers would pay an additional 13 – 18% of the regular price of toilet paper for the eco-labelled alternative (Bjorner *et al.,* 2004 as mentioned in Arnot *et al.,* 2006). Moreover, a study summarising research conducted across Europe examining the proportion of consumers that would buy ethical products at differing price premiums concluded that many more consumers would buy ethical products if the price premium was lower: on average purchases would multiply by five if premiums decrease from 50 – 60% to 5 – 10% (Wier and Calverley, 2002). Similarly, Auger, Burke, Devinney, and Louviere (2003) concluded consumers were willing to pay different amounts for different product attributes, within which ethical attributes were amongst the top two most important and valuable. At the extreme, Kimeldorf, Meyer, Prasad, and Robinson (2006) found a small group of consumers that were willing to pay a 40% premium on ethically produced socks, but again the share of sales was sensitive to a reduction in the premium. These results indicate that consumers seem to be willing to pay a premium for Fairtrade products and form the basis for the first hypothesis that will be studied in this research:

H_{1a}: Consumers are willing to pay more for Fairtrade products than their conventional substitutes.

Not only did the price premium consumers were willing to pay differ for different levels of involvement with Fairtrade, but also based on the type and price of product. Luxury products, which could be positioned within the transformational half of the Rossiter-Percy-Bellman Grid, were most effectively advertised by evoking emotions within the consumer (Rossiter & Bellman, 2005). Given that these products are pleasure-orientated, associating an altruistic incentive with such a product is more likely to affect the consumer than it would on a necessity (Zak *et al.,* 2007; Strahilevitz, 1999). According to distributive justice – based on equal ratios of inputs and outputs – and procedural justice – determined by societal norms and behaviour – consumers should be prepared to pay more for luxurious Fairtrade products than for non-ethical alternatives, as not paying the premium would result in an imbalance and hence evoke feelings of guilt. It is also more likely that a premium paid on luxury products induces the 'warm glow' feeling associated with stimulating charity (Zak *et al.,* 2007). On the contrary, consumers are likely to perceive inequity when relatively high ethical premiums are placed on necessary products (Strahilevitz & Meyer, 1994), which most Fairtrade certified

products are, as these are required to fulfil basic needs for all humankind. Correspondingly, in accordance to pricing theory, it has been found that the higher the price of a product (usually a frivolous product), the higher the ethical premium can be without encouraging consumers to switch to the non-ethical alternative, and the lower the price of the product (usually a practical product), the less the consumer will want to pay for a premium (Rode *et al.*, 2008; Strahilevitz, 1999; Shampanier, Mazar & Ariely, 2007). These product-based price perceptions have consistently been shown to influence willingness to pay; hence managers need to adjust the ethical premium charged based on the product. The reluctance by consumers to pay a high ethical premium may be explained by the fact that the majority of Fairtrade products are (necessary) grocery products.

The previous discussion highlights the controversy and debate surrounding the pricing of Fairtrade certified products, and whether ethical foods are worth a premium price (Nielsen, 2007). Perhaps managers are leaving a lot of money on the table by charging these higher prices – lower prices, that are more in accordance to the consumers' value perception, may stimulate greater sales from incumbent and novel consumers, who have fewer justification for non-compliance (Briers, Pandelaere & Warlop, 2007), that could overcome the costs. In contrast, demand does not decrease significantly when the price of Fairtrade goes up (Arnot *et al.*, 2006), thus there may also be consumer surplus that the managers can gain by increasing their pricing. Existing studies conducted with the aim of identifying the consumer willingness-to-pay for Fairtrade certified products have consistently been performed within the framework of cost-plus pricing. The main disadvantage of this pricing strategy is that it tends to ignore the role of the consumer, particularly in an increasingly dynamic retailer environment. Therefore, this research is set out to test *what the effect of a participative pricing strategy is on the consumer's product choice and willingness to pay for Fairtrade versus conventional products*. Novel psychological pricing methods have recently emerged that may be better suited to ethical products, since they allow consumers to express their individual support and value towards a social brand, and they may eliminate the inherent price comparison that consumers engage in whilst shopping, as discussed below.

2.2 Pricing Strategies

The development of the World Wide Web has initiated many alternative price-setting mechanisms, including two-part and psychological pricing methods that increase the transparency of a product's cost structure, and put the control of the final price in the hands of end-customers, in order to make it more acceptable to increasingly sceptic consumers. The use of these pricing strategies has become more common in today's virtual environment: online shops, for example, often separate the cost(s) of the product(s) and shipping and handling fees, and in some supermarkets the price of the product and its value-added-tax are parted. From a consumer perspective, presenting a partitioned price, versus one all-encompassing price, has been found to influence both the perceived cost and value of the product, and even largely influences consumer behaviour (Shampanier *et al.*, 2007; Bertini & Wathieu, 2008). It is thus vital to analyse these consumer reactions since typically the only role of prices is to indicate the cost of making a purchase.

Partitioned prices were often underestimated by the consumer as a direct consequence of discount processing and neglecting the lower surcharge in calculations (Morwitz, Greenleaf, & Johnson, 1998; Xia & Monroe, 2004). The consumer has, in fact, been found to recall the total price of a product eight percent lower when it was presented in components than as an all-inclusive price (Lee & Han, 2002). It thus appears that partitioned pricing can reduce the perceived cost of the product. Moreover, in contrast to all-inclusive prices – in response to which consumers simply pay attention to the dominant attribute – partitioned prices have been found to increase the amount of attention paid to secondary and tertiary dimensions (Bertini & Wathieu, 2008). Fairtrade and other social certification indicators have been found to be the sixth attribute consumers look for when purchasing goods in traditional supermarkets (De Pelsmacker *et al.*, 2005; Idea Consult, 2002). Hence, sensitising the consumer to these features, which are so evidently overlooked in today's cluttered environment, can have a multitude of advantages. Firstly, by bringing forth the differentiated aspects (Bertini & Wathieu, 2008) upon which Fairtrade certified products build their competitive advantage, and secondly, by making the transaction more understandable and traceable to the average consumer (Bertini & Wathieu, 2008; Xia & Monroe, 2004) by identifying what monetary amount of the sale would go to the seller and the producer – an uncertainty that often even troubles and puts off do-gooders in donation settings (Berrens, Jenkins-Smith, Bohara, & Silva, 2002) – the salience of the Fairtrade attribute is likely to rise in consumers' overall evaluations of product offers and play a greater role in influencing shopping behaviour.

Research has shown that when a surcharge appears to contribute to the seller's profits rather than cover costs, it is deemed to be more effective to use an all-inclusive price to avoid negative word-of-mouth and boycotting (Schindler, Morrin & Bechwati, 2005; Lee & Han, 2002); however in the case of Fairtrade certified products, the separate premium for the farmers is likely to be positively received. Despite the benefits that could be gained from implementing a partitioned pricing strategy to Fairtrade products, the vastly fluctuating changes in market commodity prices would require companies to frequently adjust the absolute monetary values attached to each price component (the cost-based and premium-based parts). This is likely to be very impractical, and result in high menu costs, thereby making it a less viable strategy.

Alternatively, the internet has also introduced more consumer-oriented pricing strategies that capture individuals' product valuations. Such participative pricing methods include zero as a special price, pay what you want (PWYW), and name your own price (NYOP). Literature on these pricing strategies is scarce; however the myriad of advantages that can be attained by both the seller and the buyer suggests that they should be considered with respect to Fairtrade certified products.

In the most extreme case, firms can opt to charge customers nothing for their products. An increasing amount of research has underscored the effectiveness of zero pricing (Poundstone, 2010; Kim, Natter, & Spann, 2009), particularly to increase the demand for perceived low-value goods (Shampanier, Mazar, Ariely, 2007). Nevertheless, not charging any price for Fairtrade certified products – though increasing their demand – will contradict the image and mission they represent; namely to give producers in Third World countries a better, and fair deal for their produce. Therefore, simply applying this strategy is unlikely to be fruitful in enhancing the demand for Fairtrade certified goods while minimising its revenues.

In contrast to charging a fixed price (even a fixed price of zero), NYOP is a participative pricing strategy where consumers have the liberty to offer any price for the product, but the seller will only accept it when it is above a certain minimum threshold set by the seller and unknown to the buyer. Compared to PWYW pricing, it reduces the risk faced by the seller by enforcing an undisclosed minimum price below which the seller can reject the buyer's bid (Shapiro & Zillante, 2009). Evidently, this enables the seller to protect himself from buyers seeking to pay well below the costs of the product, as the minimum price is likely to be the

marginal cost of production (Spann & Tellis, 2006). Nevertheless, the NYOP strategy has been suggested to be ineffective in the long-run, when it is applied to repeat purchase fast moving consumer goods, such as most Fairtrade certified products. Over time, rational customers will acquire large quantities of information and are thus likely to learn the minimum price threshold, subsequently reducing their bids to this minimum. Consequently, the more experience the customer acquires, the lower the surplus that may be earned by the seller and passed on to the producers, especially for fast-moving consumer goods that people buy routinely without much thought or involvement. Since the NYOP strategy removes the transaction transparency desired by ethical buyers and implements a minimum price that may also encompass additional earnings for the vendor as opposed to the farmers, it is unlikely to allay consumer beliefs that the vendor has ulterior motives by engaging in such a CSR initiative. Thus, in comparison to fixed prices for Fairtrade products, the NYOP strategy does not appear to be value-adding hence shall not be tested further.

PWYW, a similar strategy is "a participative pricing model in which a buyers' control over the price setting is at a maximum level" (Kim, Natter, & Spann, 2009). This implies that the seller is obliged to accept any price that the buyer offers to pay for a specific product, including zero. Initially this raises the seller's downside risk: the risk that the buyer cheats the seller by paying a price of zero or similar price below the sellers' marginal costs. Nevertheless, it has successfully been applied to a variety of product categories: the most recent album of the indie band Radiohead was downloadable under PWYW, resulting in two million purchases and a higher revenue than previous online albums (Kim *et al*, 2009); Michelin star restaurant Little Bay, in an attempt to tackle to declining revenues from the current financial crisis, has doubled its number of customers by using a PWYW strategy (Moore-Bridger, 2009); and software retailer Binarynow saw an increase in sales of 61% compared to the same period the previous month, in parallel to a five percent higher conversation rate, though this did come at a cost as 82% only paid the minimum price of two dollars – which was intended to cover the internet transaction costs (Neal 2009a; Neal 2009b). Employing PWYW on Fairtrade certified products could repeat the aforementioned success; however it also leaves much room for customers to further profit at the expensive of underpaid farmers in the developing world.

In contrast to conventional pricing, PWYW pricing is likely to alter the consumers' perception of numerous variables surrounding the product – including its value – since it is

the consumer who must initiate the transaction with a bid. Consumers' perception to pricing has, in turn, been found to alter consumer behaviour and final product or service choice (Chandran & Morwitz, 2005; Shampanier *et al.,* 2007; Carlson & Weathers, 2008; Kim *et al.,* 2009; Gabor & Granger, 1993). The customer has been posited to perceive the application of standard pricing methods as a money-market relationship; hence they apply rational, economic norms to assess the respective exchange. This implies that in a simple transaction, the consumer compares the product's costs to its value to determine whether or not to buy – which is consistent with the norm of self-interest. On the other hand, PWYW pricing does not demand a set price in return for the product. Consequently, this transaction is more likely to mimic a moral market and hence be perceived as a social-market relationship by the customer, where social exchange norms (such as the norms of equity, reciprocity, and cooperation) dominate. In such situations, abstaining from payment may be internalised as a form of stealing, which often results in internal distress because of inherent conflicting social norms. Additionally, when this occurs in a public situation, like a supermarket, the effects of distress are likely to be further leveraged due to the supplementary effect price has as an impression management tool (Lynn, 1990 as mentioned in Kim *et al.,* 2009; Griskevicius *et al.,* 2010).

The nature of Fairtrade certified products is such that there is both a humanistic aspect (given its association with higher incomes for small-scale Third World farmers), as well as a commercial aspect (since the sale of Fairtrade certified products is currently framed as a commercial transaction where a consumer acquires the product for a fixed, normally elevated, price). Hence, in accordance with the previous discussion, the sale of Fairtrade certified products could be perceived as occurring within the money market and/or moral market. It would be expected that the story behind Fairtrade ensures that these products are unequivocally associated with humanistic elements, in which case emotions are likely to play a large role in decision-making, since people will want to help poor farmers. Strong (1997) and Gielissen (Sloot, 2010), however, attributed the diminutive impact of Fairtrade to date on its problem of effectively communicating the human element to the customer. Consequently, economic norms are probably used to evaluate the offer today, and form comparisons with functionally competitive conventional products. This may imply that the norm of self-interest prevails, undermining the sale of Fairtrade certified products due to its higher prices. Employing pricing strategies that allow the customer to fix the price are likely to highlight the presence of the humanistic elements these products encompass, and position them within the

moral market. By placing control of the price the producer receives with the customer, the customer is likely to apply the norms of reciprocity and equity, and accordingly be willing to pay a higher price. Hence, the second hypothesis to be tested in this research reads:

H_{1b}: Consumers are willing to pay higher prices on average for Fairtrade products under PWYW than their conventional fixed priced alternatives,

H_{1c}: Consumers are willing to pay lower prices on average for conventional products under PWYW than their Fairtrade fixed prices alternatives.

Additionally, Griskevicius, Tybur, and van den Bergh (2010) discovered that the purchase of socially responsible products does not only occur to help those worse-off, but also to improve one's self-image. Publicly buying Fairtrade certified products probably enhances others' evaluation of you since you are likely to be perceived as a do-gooder, while also indicating that you have the additional resources to afford such products and continue living comfortably. Recent research looking into willingness-to-pay estimations has shown that estimates of what other people are willing to give is frequently used as a reference to decide how much you should give in donation settings (Croson et al., 2009). On the other hand, it has been deemed that people tend to overestimate the amount that others are prepared to buy a product for in comparison to themselves (Frederick, 2011). Such effects of social influence have been found to occur in many situations from the decision to smoke and drink among teenagers (Pechmann, Zhao, Goldberg, & Reibling, 2003), to willingness to participate in a charity and respective donation amounts from adults (Croson, Handy, & Shang, 2009). It is likely that the degree of social pressure someone feels will impact their decision to purchase an ethical product and how much to pay for it. Hence, the recently discovered influence of others' behaviour on ours, and the ability to enhance one's image by buying socially-responsible goods, like Fairtrade, further supports using participative pricing mechanisms on these products (also because there is no set maximum price consumers can contribute). Since the benefit of non-payment is likely to lie far below the anticipated distress of non-payment caused by the violation of social norms (Kim *et al.,* 2009) and the lower public image formed by bystanders and spectators (Griskevicius *et al.,* 2010), participative pricing strategies applied to Fairtrade products are likely to be successful from the producer's perspective. Thus it is expected in the third hypothesis that:

H_{2a}: Prices paid for Fairtrade and conventional products are higher when consumers are surrounded by others than when they are alone.

H_{2b}: Estimates of others' product choice and price paid affects own product choice and price paid respectively.

Empowering the consumer – by using participative pricing methods that put the task of price determination with them – has widespread advantages. Firstly, the PWYW mechanism allows sellers to benefit from heterogeneous customer price and product-valuation segments (Kim *et al.*, 2009; Fernandez & Nahata, 2009). In this setting, natural price discrimination takes place as customers who value the products more are likely to pay higher prices, while on the other end of the spectrum there are also likely to be some free-riders (Terwiesch, Savin, & Hann, 2005; Shehryar, 2008; Abbas, Hann and Terwiesch, 2011). This moreover implies that demand for the product is likely to increase, as customers who found the previous posted-prices too high are no longer priced out of the market. Also, the reduced barrier of a higher price as a reason not to purchase Fairtrade certified products is likely to enhance consumer attention and awareness of their existence. Secondly, participative pricing has the potential to influence the depth at which consumers analyse different product attributes. Particularly for products that consumers purchase without much thought or consideration – low involvement goods – it is often simple heuristics like price, or habits that influence sales. Hence, secondary attributes are frequently overlooked. As a result of a PWYW strategy consumers may be more inclined to look beyond price differences and place more weight on the importance of the ethical component, thereby increasing purchase probabilities. Thirdly, the novelty of these pricing models, within the context of a café or supermarket, will attract a vast amount of attention – from customers, media, and competitors who will spread the news further through word-of-mouth. This too is likely to leverage the popularity, awareness, trial, and equity of the products, while also increasing the seller's differentiation, credibility and pricing image in the eyes of the customers (Fay, 2009) – a large advantage in today's cluttered environment. In addition, they are simple and easy strategies to explain to consumers. Fourthly – similar to Bolton, Warlop, and Alba (2003) – Kim, Natter, and Spann (2009) found that people prefer to actively participate in price-setting than to accept a seller-set price because there is extensive belief that the fair price of a product lies below its actual selling price. For Fairtrade certified products whose prices are on average more expensive, this belief is likely to be even greater.

The importance of fairness in exchanges for social brands, in particular for a label like Fairtrade that intrinsically encompasses these values, makes a participative pricing strategy well-suited. Since consumers' willingness-to-pay is partially influenced by the perceived

fairness of the exchange, competitive prices, income, satisfaction, and altruism (Kim *et al.*, 2009; Cox, 2001; Carlson, & Weathers, 2008), giving the consumer the freedom to determine the price they feel is right is likely to increase perceptions of fairness; hence they are expected to be more likely to be willing to pay an extra amount. In the context of Fairtrade certified products, the direct emotional linkage and the accompanying responsibility of determining an appropriate price is likely to amplify the amount paid. Research conducted by Gneezy, Gneezy, Nelson and Brown (2010) indicated that during the purchase of photographs at a theme park, using a PWYW strategy when 50% of revenues were donated to charity decreased sales volume in comparison to a fixed price with charitable contribution and a PWYW strategy for conventional photographs, but increased average prices paid and total revenues – even after the donations were made. These findings suggest that people do not only care about money; they identify with the company and ethical and social causes they support, plus want to send a signal of this support through means of the amount of money spent. Hence, it is expected that applying a PWYW strategy to Fairtrade products will show similar results. Consumers who do not strongly support Fairtrade will defer from purchasing the products at all, as opposed to paying a low price for them since this will give a costly, bad signal, deemed unworthy (Gneezy *et al.,* 2010). Nevertheless, these findings are in contrast to Briers, Pandelaere, and Warlop (2007) who observed that in a purely charitable donation setting, where people were allowed to give any amount, many consumers had trouble estimating a suitable amount to give, which led to greater choice deferral than under a condition similar to the current sale of Fairtrade products where a fixed donation amount is provided (i.e. through the price premium). It is not expected that applying psychological pricing strategies to Fairtrade certified products would lead to similar internal decision making difficulty, since firstly consumers are faced with an economic transaction as opposed to a request for charity; and secondly, they are surrounded by functionally similar, competing, conventional products – both in supermarkets and cafés – which provide external references prices (*ibid*).

Reference prices, whether internal or external, are used by consumers as a way to guide them in valuing a product or service and hence deciding on what, where, and how much to buy and pay. Internal reference prices are prices stored in the memory of the consumer, accumulated from previous purchase experiences and other past environmental cues (Kotler & Keller, 2008), whereas an external reference price is the price of a similar or competing good (Kim *et al.*, 2009). Briers, Pandalare and Warlop (2007) concluded that the most effective way to

enhance payments towards a social cause is by specifying the donation amount – similar to providing an external reference price – without attaching it to a product. This is probably because it avoids consumers analysing the charity setting from an economic perspective, assessing and comparing the free product's costs, value, and usefulness. Nevertheless, the authors only tested the combination of a donation with a worthless token, such as a key chain. It is likely that building ethics and incorporating charitable causes into the production process of basic necessities on an individual's shopping list, as is the case with Fairtrade certified products, will not evoke similar comparisons as buying the product simultaneously benefits both parties involved. In addition, in this research design competing conventional goods provide an immediate external reference price that can be used to facilitate estimating willingness to pay for the Fairtrade alternative placed under PWYW. Previous studies investigating the use of PWYW pricing methods have shown external reference prices significantly increase prices paid for identical products by on average four percent (Kim *et al.*, 2009). The additional social attribute encompassed in the Fairtrade product is hence expected to further augment consumers' willingness to pay. What is more, ethical consumers have been considered to be less price sensitive than regular consumers (Szmigin, Carrigan & O'Loughlin, 2007; Connolly & Shaw, 2006; Arnot et al., 2006; de Pelsmacker et al., 2005a). This has been found to further decrease as repeat purchases occur due to the enhanced goodwill experienced by purchasers, and the greater perception of these prices being for a good deed (Cox, 2001).

Besides the ample evidence underscoring the advantages participative pricing mechanisms can have, there are risks that presumably discourage many firms from using it. Firstly, manipulating the pricing strategy of Fairtrade certified products to positively influence the net contribution from consumers may further undermine the moral, humanistic commitment to the cause. This could have negative repercussions on other Fairtrade campaigns, or future compliance rates. Secondly, there is a large downside risk – when using PWYW pricing – that the consumer will free-ride, and choose to pay a price which lies far below its costs, making the deal unprofitable to the seller. Yet, while the average price paid per Fairtrade certified stock keeping unit may fall, it is still expected that participative pricing will result in a huge boost in baseline sales, as a larger group of people are expected to undergo trial and repeat purchases. Alternatively, the high internal distress that may result from social costs and guilt feelings from the fear of not paying enough, may dissuade people from purchasing completely (Fernandez & Nahata, 2009). Consequently, there may be fluctuations in revenues between

periods. Critics could argue that these repercussions of the previously discussed pricing strategy would counteract exactly those objectives the Fairtrade certification aims to achieve: a stable, higher income for small-scale farmers in the South. Thirdly, overall findings from existing research conclude that the average amount paid or donated, upon putting consumers in control of determining the amount of money to give, drops (Kim *et al.*, 2009; Briers *et al.*, 2007). Especially in the long-run, repeat purchasing has been found to reduce average prices paid for CDs under PWYW (Regner & Barria 2009; Kim, Natter & Spann, 2010), though not significantly, which may also be the case for Fairtrade commodities sold under PWYW. For this reason, as Kim, Natter, and Spann (2009) asserted, products most suited to PWYW strategies have high (low) fixed (variable) costs – costs that are constant (vary) in relation to the amount produced – since they are easier to compensate. In the case of Fairtrade certified end-products it is hard to assess the cost distribution, because small-scale farmers unite into cooperatives to make production processes more efficient and effective. The raw material subsequently undergoes complex production processes in factories where fixed costs are vastly greater.

From the previous analysis, it can be concluded that a participative pricing strategy appears to be a viable pricing strategy for Fairtrade certified products. Despite the natural risks that accompany such pricing methods for these products, a PWYW strategy may enhance the humanistic attributes in the eyes of the consumer, enable a greater number of people to engage in ethical purchasing (more frequently), and give consumers the responsibility and opportunity to express their support for farmers in the Developing World. Hence, it is hypothesised in this research that a PWYW strategy, albeit atypical, could be used to increase profits from Fairtrade products in comparison to fixed prices.

2.3 Consumer Psychology

As the previous literature review has revealed, research on similar auction pricing studies remains limited. Some studies look into the specific design of the auction, the level of competition, profitability, and most suitable products, while others analyse the (ir)rationality of consumer behaviour *ex post* repeat bidding and the effect such a pricing strategy has on consumer cognition (Spann & Tellis, 2006; Terwiesch et al., 2005; Shapiro et al., 2009; Kim et al., 2009; Fay, 2009; Chandran et al., 2005; Rao, 2009). Additionally, research pertaining to the ethical consumer remains centred on trying to identify this consumer through means of demographic and character-defining variables (see Mazar & Zhong, 2010). Seemingly

missing in research to date is the effect psychological pricing methods can have on consumer perceptions, especially when applied to ethical brands.

Decades of research has pointed out that price, quality, convenience, habit but also social values influence consumers' purchases; however it is not fully understood how the type of pricing strategy may affect consumer behaviour and perception. The purchase and consumption of food in particular is interesting, as it can be seen as a negotiation of what a person will or will not ingest in their bodies. In hedonic literature for example, healthier products are often associated with lacking in taste, less pleasurable to eat upon actual consumption, and are hence chosen less frequently (Raghunathan, Naylor, & Hoyer, 2006). This is in stark contrast to findings showing that ethical consumers claim to pay more attention to sustainable products and perceive them to be tastier, fresher, of higher quality, and therefore healthier (Vermeir & Verbeke, 2006). Jager (2000, as mentioned in Vermeir & Verbeke, 2006) posits that when people are willing to put effort into a specific decision it stems from their high involvement – as opposed to low involvement that tends to result in more routine purchase behaviours. This suggests that the involvement of ethical consumers with sustainable products is higher, hence their motivation to purchase such products is higher, thereby increasing their actual ethical purchase rates. In addition to influencing pre-purchase actions, involvement has also been found to impact post-purchase experience and enjoyment. Given the fact that participative pricing strategies require greater cognitive effort from consumers as they have more influence and power in paying the price they feel a product is worth, it is likely that they will feel more involved when faced with such a pricing condition. This increased involvement under a PWYW pricing condition is likely to manifest itself in increased liking and quality assessment towards the product after consumption in accordance with cognitive dissonance theory, due to the conversion from extrinsic to intrinsic purchase motives (Shampanier *et al.,* 2007). Moreover, this effect may even appear to be greater when PWYW is applied to social brands since the greater emphasis given to the humanistic aspect of Fairtrade is expected to leverage these effects. Similar to intriguing conclusions by Mazar and Zhong (2010) that engaging in ethical consumption can have greater effects on consumers' overall altruistic attitudes and behaviour, it is expected that liking and taste evaluations of ethical products can also be affected by the applied pricing strategy, as will be assessed in this research.

H_{3a}: Products bought under PWYW receive higher taste and liking scores than those bought under a fixed price.

H_{3b}: The aforementioned effect PWYW has on taste and liking is greater for Fairtrade certified products, than normal products.

Not only can pricing strategies have a long-term impact on attitudes, but in classic literature attitudes and emotions have also been found to influence the relationship between brands and advertisements and consumer behaviour, also moral behaviour (de Pelsmacker *et al.*, 2005a, 2005b; de Pelsmacker & Janssens, 2007; Vermeir & Verbeke, 2006; Vallerand, Pelletier, Deshaires, Cuerrier, Mongeau, 1992). Pricing, as the fourth marketing tool of brand managers, may also have a similar influence. This means that consumers who have a positive attitude towards Fairtrade and Fairtrade products would be more inclined to buy Fairtrade products than consumers who have a negative attitude towards Fairtrade. In addition, it is expected that people with a positive attitude towards Fairtrade will also be willing to pay a higher premium for Fairtrade products, also when faced by a PWYW strategy. Similarly, more empathetic people, who are able to envision and understand the emotions of another person, are likely to be more responsive to social brands and will be willing to pay more for such brands. This shall be tested in the following research:

H_{4a}: Consumers with a positive attitude towards Fairtrade are more likely to choose the Fairtrade product than the normal alternative.

H_{4b}: Consumers with a positive attitude towards Fairtrade will pay more for Fairtrade products under PWYW than consumers with a low attitude towards Fairtrade.

H_{4c}: Consumers with high levels of empathy are more likely to choose the Fairtrade product than the normal alternative.

H_{4d}: Consumers with high levels of empathy pay more for Fairtrade products under PWYW than consumers with low levels of empathy.

3. Methodology

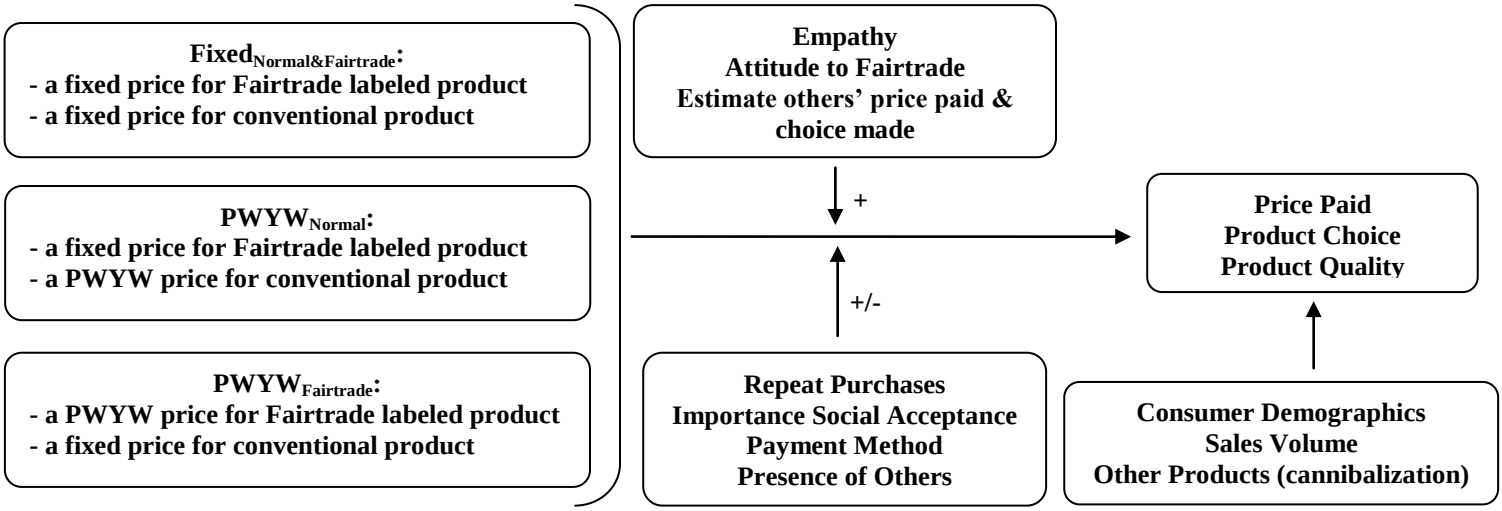
Prior research done to determine consumers' willingness-to-pay for any product have used various research methodologies (for an overview of these methods see Figure 1 in Appendix I with further explanation in Breidert, 2005). These methods vary to the extent that they take into account actual purchase contexts and provide an incentive to the consumers to reliably reveal their true reference price (Wertenbroch & Skiera, 2002). The vast existing research done to measure the value consumers place on social product features is expected to have overestimated the purchase intention and consumer willingness-to-pay due to the lack of trade-offs presented to and considered by respondents and the use of direct surveying techniques to elicit complex price estimates (Auger, Burke, Devinney & Louviere, 2003; Kamer, 1990; Cook, 1991; Breidert, Hahsler & Reutterer, 2006). The following research thus aims to more validly gauge the willingness-to-pay for Fairtrade products by consumers through implementing a PWYW strategy in a field experiment (Breidert, 2005). Field experiments are becoming a more popular research method, especially in the case of PWYW pricing (Gneezy *et al.*, 2010; Kim *et al.*, 2009; Kim *et al.*, 2010; Shehryar, 2008; Boelaars, 2010; Shapiro *et al.*, 2009), since they allow for observation of actual purchase actions and control for confounding variables such as the social bias frequently present in alternative research approaches (Nisbett & Wilson, 1977 as mentioned in Briers *et al.*, 2005; Blumenschein *et al.*, 2008; Shuttleworth, 2010). In addition, this study will aim to expand prior research by testing the application of PWYW as a pricing strategy for a social product attribute, while subsequently trying to assess the impact it may have on consumer product evaluation.

In summary, this study will set out to investigate the following research questions:

1. What is the moral charge encompassed in the Fairtrade certification mark? What premium are consumers willing-to-pay for such a moral product attribute?
2. What is the effect of a PWYW strategy on the demand and willingness-to-pay for Fairtrade certified versus conventional products?
3. To what extent can the pricing strategy influence product quality perceptions?
4. To what extent do repeat purchases and social presence moderate the prices paid?
5. To what level do empathy and ethical attitudes moderate product choice and payment?
6. What role do demographics play in ethical purchasing?

The figure below illustrates the model to be investigated:

Figure 2: Theoretical Research Model



3.1. Empirical Research

Following the previous discussion of viable methodological designs, this research was conducted as a 3 x 1 field experiment with the cooperation of Albron's Catering Café, the *Coffee Corner*, at the Erasmus University T-building in Rotterdam, the Netherlands. The widely generalisable nature of the design of this café – where customers pass by quickly on their way to purchase the things they need, do not know the sales force behind the counter and maintain a sense of anonymity towards them, and do not tip for service – was well-suited for this field experiment.

Hot beverages were chosen to be the experimental products, as these are frequently available at cafés in both the Fairtrade and conventional format. In addition, they have low variable costs, thereby minimising the risk exposure faced by the seller if consumers' payments lie below the products' marginal costs. In particular, the focus product in this research was Fairtrade cocoa. Fairtrade cocoa is one of the longest standing and fastest growing Fairtrade products on the market; hence it was familiar to consumers and researchers alike. The rationale for carrying out the experiment on students was three-fold. Firstly, the use of students in a vast amount of prior research has shown that they can be used without jeopardising the generalisability of the findings. Although students have a relatively low income and some may still live at home (thus they are not responsible for the daily groceries), hot chocolate is likely to be a beverage consumers indulge in for its taste, therefore its attributes are likely to have a greater impact than habitual consumer necessities such as

coffee. In addition, a hot beverage is a minor cost within monthly expenditures, therefore manipulating its price is unlikely to drastically impact behaviour for saving purposes. Moreover, students of this age conduct their purchases independently at the University, thus their opinion and behaviour is relevant. Secondly, a higher education has been found to influence familiarity and awareness with the notion of sustainability and Fairtrade (Vermeir & Verbeke, 2006). To assess attitudes (positive or negative) may be less evident and unreliable when respondents are not aware. Thirdly, they make-up tomorrow's consumers and their consumption habits and related reactions and behaviour are likely to be carried into the future; hence they are deemed the most appropriate subjects in research aimed to identify opportunities to encourage ethical consumption.

Three price conditions made up the independent variable, and were manipulated as follows:

Price Condition 1 ($Fixed_{Normal\&Fairtrade}$)*:*
Consumers were faced with a single fixed price for both Fairtrade and conventional hot chocolate. Since hot chocolate beverages tended to be sold at the Coffee Corner in this way, this was used as the control condition. The typical price of normal hot chocolate was €1.50, which was kept constant in $Fixed_{Normal\&Fairtrade}$ to avoid promotional effects. Moreover, for internal validity and comparison purposes, the Fairtrade cocoa was equally priced.

Price Condition 2 ($PWYW_{Normal}$)*:*
Consumers were faced with a single fixed price of €1.50 for Fairtrade certified hot chocolate, similar to $Fixed_{Normal\&Fairtrade}$. But, they could also choose a conventional hot chocolate under the PWYW pricing strategy. Due to the fact that this is a relatively novel concept, buyers were informed about the specific pricing mechanism avoiding any terms that could alter the perceived value of the price, as suggested by Gneezy, Gneezy, Nelson and Brown (2010). The determination of the price for the conventional hot chocolate was entirely set by the buyer. The transaction took place as the seller had to accept this price, regardless of its magnitude.

Price Condition 3 ($PWYW_{Fairtrade}$)*:*
In reverse to $PWYW_{Normal}$, consumers were faced with a single fixed price of €1.50 for the conventional hot chocolate and a PWYW pricing strategy on Fairtrade hot chocolate. Once again, due to the novelty of the pricing strategy, buyers were duly informed about the pricing strategy.

Stemming from existing methodologies like the most recent and relevant experiment conducted by Gneezy, Gneezy, Nelson and Brown (2010), this research was similarly conducted to test the effect of a PWYW price strategy on several dependent variables namely: *actual* price paid, *real* demand, and taste perceptions of conventional and Fairtrade labelled hot chocolate. Flyers were used to advertise the hot chocolate beverage. Once consumers approached the counter ordering a hot chocolate, they were faced with a dichotomous choice: to opt for Fairtrade labelled hot chocolate or Normal, non-Fairtrade hot chocolate. The employee who greeted the consumer would inform and ask each consumer in a standardised way "Today you have a choice between Fairtrade hot chocolate at [the price specified in the treatment] or normal, non-Fairtrade hot chocolate at [the price specified in the treatment]." Information about the meaning behind Fairtrade was displayed around the cafeteria, as was done by Gneezy, Gneezy, Nelson and Brown (2010) (see Appendix II), and if there were any questions concerning this label, employees were instructed to explain Fairtrade using its international definition as derived from their homepage: "Fairtrade products are produced and traded under fair trading conditions. The label ensures that a higher price is paid for cocoa from farmers in developing countries to encourage social and environmental development there" (www.fairtradeusa.org). The PWYW pricing strategy was explained as "a price strategy where you, the consumer, can decide how much the cup of [product under the PWYW pricing strategy treatment] hot chocolate is worth to you, and how much you are willing to pay for it." Subsequent to the purchase, consumers were asked to fill in a short questionnaire upon consumption of the hot chocolate beverage (see Appendix III for an example).

The brief consumer questionnaire concerned scales to measure the dependent variables, moderating variables, and controls including socio-demographic factors. A probe question was also included to verify that respondents were unaware of the purpose of the experiment. To avoid demand effects after purchasing the hot chocolate, customers were approached to fill in the questionnaire as part of a customer satisfaction survey on behalf of the company, Albron.

Firstly, the dependent variables product choice and price paid were measured in the course of the experiment whereas two questions "How tasty do you think this hot chocolate was?" and "How much did you enjoy drinking this hot chocolate?" made up the multi-item tastiness

index (cronbach alpha = 0.86 in Raghunathan *et al.*, 2006). It was measured on a 6-point scale with 1 being "not at all" and 6 "very," narrower than the original 10-point scale to allow for better differentiation in the expectation of a lower sample size.

Secondly, the moderating variables empathy, Fairtrade attitude, and others' estimated product choice and willingness-to-pay were measured in various ways. Five items from The Toronto Empathy Questionnaire with an original cronbach alpha of 0.85 (Spreng, McKinnon, May & Levine, 2009) were used to measure empathy. Two items, "Other people's misfortunes do not disturb me a great deal" and "I do not feel sympathy for people who cause their own serious illnesses" were reverse coded, and the remaining three included "It upsets me to see someone being treated disrespectfully," "I have tender, concerned feelings for people less fortunate for me," and "When I see someone being taken advantage of, I feel kind of protective towards him/her." They were scored as follows "Never = 0; Rarely = 1 Sometimes = 2 Often = 3 Always = 4." To measure Fairtrade attitude, five items from the scale by de Pelsmacker and Janssens (2007) were used, with cronbach alpha's greater than 0.8. Once again, two statements were reverse coded, namely "I am concerned about the Fairtrade issue" and "Fairtrade is important" whereas "Fairtrade is too much like a charity: purchasing Fairtrade products does not solve anything in the long run. It just eases your conscience," "Fairtrade products lack credibility," and "Fairtrade is not compatible with free-market principles: it is impossible to trade fairly and be profitable" were normally coded and rated on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree). To measure the expected actions of others, similar to open questions used in the aforementioned papers, respondents were asked: "Which choice do you think others made today when purchasing hot chocolate at the Coffee Corner in T4" and "Please estimate how much others paid today for a [Fairtrade/Normal non-Fairtrade] hot chocolate under the PWYW pricing condition at the Coffee Corner in T4."

Finally, to maximise external validity of the findings and explanations, several control questions were measured. Given the specific use of hot chocolate as the experimental product, it was important to measure the degree people regularly drank it in order to be able to more reliably generalise the findings. Hence the first two questions asked respondents to rate their degree of general drinking behaviour on a scale of 1 "never" to 6 "everyday" and liking on a scale of 1 "not at all" to 6 "very" with the following two respective questions "Do you normally drink hot chocolate" and "How much do you like chocolate in general?" In addition,

exposure to one of the other pricing conditions may have biased subsequent behaviour so it was tried to capture previous purchase habits at the Coffee Corner as complete as possible via three questions: "Have you noticed this promotion before," "Have you previously purchased a hot chocolate under this promotion," and "Have you purchased a hot chocolate in the past [dates depending on the experimental condition] (multiple boxes can be ticked)." Despite the fact that the relationship between personnel and customers at the Coffee Corner was very impersonal, the effect of social pressure is likely to be greater for consumers who place a lot of importance on the extent to which they are accepted by their peers. Hence, three five-point statements from "not important" to "very important" were used to measure the importance of social acceptance, as was done by Pechmann, Zhao, Goldberg and Reilbing (2003, as mentioned by Bruner II, 2009): "How important is it for you to look attractive to others," "How important is it for you to look attractive to dates or potential dates," and "How important is it for you to fit in at parties?" Lastly, in order to build rapport with the respondents the final four questions concerned gender (male or female), nationality (Dutch, German, French, Belgian, Other namely), age (open), and monthly monetary resources available to spend ("Please indicate how much money you have to spend per month after having paid your fixed costs (e.g. rent, insurance, phone contract, fees):" <= €200, €201 - €400, €401 - €600, €601 - €800, €801 - €1000, €1001 - €1200, >= €1201). Since slightly older people were expected to have a higher income, and thus higher expenditures, these results could also be used to cross-validate respondents' answers.

To ensure internal validity, it was important to control for promotional exposure of each product, context, time, and the performance of the sales force in the construction of this experiment. Firstly, flyers and posters were distributed in the vicinity of the Coffee Corner's location over the course of the experiment (see Appendix IV). In contrast to Kim, Natter, and Spann (2009) it was not intended to emphasise the PWYW strategy as a promotion, hence the promotional material was neutral towards Fairtrade. It was solely intended to draw consumer attention to the beverage and encourage them to visit the Coffee Corner for a hot chocolate. This helped attract respondents to participate in the experiment. Firstly, it was noteworthy that all respondents voluntarily chose to spend time and resources at this café, a pre-requisite for field experiments as such. Secondly, the purchase context has been found to affect value perceptions, hence one location was chosen for the purpose of this research. Numerous other locations that sell hot beverages exist at the Erasmus University but prices were kept constant in those locations and sales were closely monitored for possible switching behaviour. Thirdly,

similar to the manipulation of the pricing strategy (fixed price vs. PWYW) and the inclusion of a charitable component (half the revenues being donated to charity vs. no charity) of souvenir photos bought after a ride at a US theme park by Gneezy, Gneezy, Nelson and Brown (2010), each aforementioned pricing condition was available at the Coffee Corner for two consecutive days during one week to eliminate any sporadic day effects. The remaining 4 days of the week (Sunday the café was closed) there was no treatment. The time lag between the various treatment conditions, created by having one pricing strategy per week, ensured that there was no interference from possible day effects, and also gave consumers a chance to forget about the previous conditions to revert to their regular behaviour. Fourthly, it was necessary to control for the behaviour and language used by the sales force. In previous research (Gneezy *et al.,* 2010) theme park visitors were informed about the pricing strategy and charitable component included in their purchase at the register, without making use of vocabulary that could affect the perceived value of the offer. Correspondingly, the sales force working at the Coffee Corner received a training prior to the start of the experiment to ensure consistency[2]; a reminder paper behind the counter (see Appendix V), and the researcher herself joined as an employee for the experimental days to further ensure a consistent implementation. Since customers did not know the researcher, her presence behind the counter further ensured anonymity. Employees' behaviour was monitored throughout the three experimental weeks, although they were not informed about the true intentions behind the experiment until it was completed.

In order to account for the fact that there would be both English and Dutch speaking customers at the Coffee Corner, the questionnaire was translated. To confirm that the Dutch questionnaire was identical in meaning to the English questionnaire, two fluent bilingual professionals were asked to translate the Dutch version to English, and two to translate the English version to Dutch. Thereafter, four others were asked to compare the questionnaires in meaning. To finalise the two questionnaires, a small pre-test with five respondents was conducted to identify any other problems and confusions. Though two respondents expressed hesitation when answering the reversely coded empathy question "Other people's misfortunes

[2] The sales force was told not to refer to past prices or future prices, nor were they to mention or imply that this was a temporary promotion. They were also asked to maintain a consistent tone of voice – avoiding a quieter and softer voice when describing the payment schemes and the concept of fair trade – and a professional approach regardless of reactions from consumers. Finally, they were instructed to call a supervisor should any problem occur. For questions concerning the fair trade attribute, the sales team were instructed to stick to the common definition of Fairtrade: the label provides a higher price for the cocoa sourced from farmers in developing countries to encourage higher social and environmental standards (de Pelsmacker *et al.,* 2005a).

do not disturb me a great deal," it was decided to pursue with the scale as it was set up by Spreng, McKinnon, May, and Levine (2009) to also try identify respondents that were not filling in the questionnaire seriously.

Lastly, the employees behind the counter noted how much consumers paid, their environmental context (i.e. whether they were alone or with other people around them), and whether payment occurred with cash or by card (see Appendix VI).

3.2. Data Cleaning

Depending on the day and week in which consumers visited the Coffee Corner, they were confronted with one of the three pricing strategies (Fairtrade at €1.50, Normal non-Fairtrade at €1.50 vs. Fairtrade at €1.50, Normal non-Fairtrade under PWYW vs. Fairtrade under PWYW, Normal non-Fairtrade at €1.50) when ordering a hot chocolate beverage. Given the nature of a field study, consumers independently decided to purchase the product under study ensuring random assignment, and were subsequently asked to fill in a satisfaction survey to improve the service of the Coffee Corner in return for a biscuit to accompany their beverage.

Overall 104 people participated in the experiment by purchasing a hot chocolate over the course of six days; 31, 34, and 39 in $Fixed_{Normal\text{-}Fairtrade}$, $PWYW_{Normal}$ and $PWYW_{Fairtrade}$ respectively. To ensure this dataset could be used for analysis, it was examined and cleaned by eliminating irrelevant respondents, re-coding the four reversely coded variables in two scales, and checking for missing, extreme or inconsistent values. Eight questionnaires were not (fully) completed post-purchase and one respondent knew the purpose of the experiment; hence they were registered as missing variables and excluded from the analysis via case-wise deletion, resulting in 96 valid respondents (64 female, 32 male). The product choice, price paid, payment method and environmental context were nevertheless noted for those eight consumers and were thus included in the analysis of these variables. One extreme value of €25 was identified as an estimate of what others paid that day for a Normal, non-Fairtrade hot chocolate under the PWYW strategy, however this did not seem to affect the remaining answers, hence pairwise deletion was applied to this case throughout the analysis. In addition, various tools were used to detect any influential outliers. However box plots, standardised z-scores, and the fact that the five percent trimmed mean did not significantly differ from the mean for all core interval variables suggested outliers were not a problem. Finally, Grubb's test was used to identify whether the extreme values were significant outliers from the others.

Two prices paid of €0.00 and €2.80 in $PWYW_{Fairtrade}$ were considered to be outliers, however removing them from the dataset did not significantly impact the means or any of the findings and it was considered invalid to remove them since in real-life situations there are often polarising views towards a CSR initiative and it is expected to have a large variance. Therefore they were kept in the dataset for analysis.

3.3. Validity and Reliability Check

Before analysing the results of the questionnaire, the multi-item scales had to be checked for reliability. Despite their use in previous studies, the scales for Fairtrade attitude, empathy, importance of social acceptance, and tastiness index were checked via a factor analysis. This analysis was allowed on the aforementioned measurement items since the Barlett Test of Sphericity identified the correlation matrix as being significantly different from an identity matrix ($\chi^2 = 524.43$, $p < 0.001$), and there was sufficient common variance between the variables for the analysis to be performed (Kaiser-Meyer-Olkin sampling adequacy measure was very high at 0.67). Due to the chance that empathy was significantly correlated with Fairtrade attitude – where more empathetic people were likely to have a higher Fairtrade attitude due to their ability to sympathise and care more about people less fortunate than themselves – an oblique factor analysis with direct oblimin rotation was conducted. The findings revealed that the items that made up the scale in previous studies, did in fact load highly on their respective scales, confirming that they could be combined and used for subsequent analysis.

Using the Eigenvalues criteria being greater than one, and judging the Scree Plot depicted in Appendix VIII, it was concluded that five factors explained 68.54% of the variance of the underlying data. Table III in Appendix IX shows the final factor loadings of each variable, and illustrates that the percentage of variance in the variable explained by the factor model, the communalities, is quite high. The items loaded as they should have, with high internal reliability measures for tastiness index ($\alpha = 0.93$), importance of social acceptance ($\alpha = 0.74$), and general drinking behaviour ($\alpha = 0.66$). For Fairtrade attitude, five items were initially expected to compose the multi-item scale. Although "Fairtrade products lack credibility" also loads onto another factor, it was assigned to its highest loading factor where it fit more logically. An inspection of cronbach's alpha additionally revealed that the scale could be strengthened from 0.68 to 0.72 by removing the negatively phrased Fairtrade Concern item. Similarly, the item "Other people's misfortunes do not disturb me a great deal," which was

expected to load heavily on the factor empathy was removed from the previous scale as the double negation clearly led to much confusion in respondents and ended up measuring something else. This also improved cronbach's alpha from 0.72 to 0.78. Though the scales of empathy and Fairtrade attitude were found to significantly correlate positively (rho = -0.31, p = 0.002), where customers with a more positive attitude to Fairtrade also scored as being more empathetic, the two constructs measured different things and any multicollinearity was ruled out (VIF = 1.01, Tolerance = 0.99).

From this factor analysis it was concluded that the variables used in this research did in fact measure the constructs they aimed to measure and were fit for further use, as all the variables loaded onto factors that closely reflected scales taken from previous studies. For subsequent analyses, consumers' scores on each multi-item construct were composed of the mean of their score of the variables that made up this construct.

3.4. Normality and Manipulation Check

To use parametric statistical tests, it had to be ensured that the data followed a relatively normal distribution, and that each of the conditions had a similar distribution. Table V in Appendix VII gives an overview of the mean, standard deviation, sample size, and distribution per variable, per pricing condition, per product choice (Fairtrade or Normal). For all the data together it seemed only age was not approximately normally distributed – due to the fact that the experiment was conducted at a University there were a larger number of younger consumers. When interpreting the results, this negative skew (skewness = - 1.06, kurtosis = 5.15) was taken into account. Robustness tests and manipulation checks (available in detail in Appendix VII) confirmed that the groups exposed to the three different pricing strategies did not differ significantly from one another in terms of demographic characteristics age, gender, income, nationality and general drinking behaviour, and showed that none of the variables nor errors significantly differed from a normal distribution and thus the multi-item scales could be reliably used for further hypothesis testing.

4. Results: Coffee Corner

4.1. Control Tests

General Drinking Behaviour

Three ANOVAs were conducted on average hot chocolate drinking behaviour, liking, and general drinking behaviour to find that there were statistically no differences across the three pricing conditions ($F(2,93) = 1.44$, $p = 0.24$; $F(2,93) = 0.31$, $p = 0.74$; $F(2,93) = 0.57$, $p = 0.57$ respectively). Additionally, Levene's statistic of 0.06 ($p = 0.94$) for hot chocolate drinking behaviour and 1.01 ($p = 0.37$) for hot chocolate liking highlighted there were no significant differences in the variance of these two variables across the conditions. This implied that consumers' behaviour and perception of hot chocolate in general were similar across the conditions, and did not unduly influence variations in other factors. Moreover, Fairtrade and Normal hot chocolate did not significantly differ in average taste, current enjoyment and tastiness index within each condition (see Table VI below). Therefore changes in the taste perceptions across treatment groups and across the product types could be attributed to price manipulations and the different prices that people paid for the beverages, as opposed to differences in product quality.

Table VI: Product Taste and Enjoyment

Pricing Condition	Taste	Product	Mean	SD	p-value	t-value
Fixed Normal & Fairtrade	How tasty do you think this hot chocolate was?	Normal	4.29	1.70	0.77	-0.30
		Fairtrade	4.10	1.37		
	How much did you enjoy drinking this hot chocolate?	Normal	4.43	1.51	0.87	-0.17
		Fairtrade	4.33	1.20		
	Tastiness Index	Normal	4.13	0.88	0.89	-0.14
		Fairtrade	4.10	0.98		
PWYW Normal	How tasty do you think this hot chocolate was?	Normal	4.56	0.78	0.45	-0.76
		Fairtrade	4.27	1.28		
	How much did you enjoy drinking this hot chocolate?	Normal	4.61	0.70	0.51	-0.66
		Fairtrade	4.40	1.12		
	Tastiness Index	Normal	4.58	0.65	0.47	-0.74
		Fairtrade	4.33	1.18		
PWYW Fairtrade	How tasty do you think this hot chocolate was?	Normal	4.00	1.25	0.23	-1.23
		Fairtrade	3.50	1.15		
	How much did you enjoy drinking this hot chocolate?	Normal	3.73	1.22	0.85	-0.20
		Fairtrade	3.65	1.27		
	Tastiness Index	Normal	3.87	1.19	0.47	-0.73
		Fairtrade	3.58	1.15		

Payment Method in PWYW

Given the fact that a PWYW strategy was used as a methodology to estimate willingness to pay, it was possible that consumers paying in cash may have used the flexible pricing as an opportunity to get rid of unwanted coins thereby causing average prices to lie below the usual price, biasing the findings with respect to willingness to pay for Fairtrade and Normal hot chocolate. The average price paid in cash was €1.48 versus €1.52 when paying by card, but this was not identified as being significant: the Payment Method had no influence on the price paid in general ($t(101) = -0.413$, $p = 0.68$) nor in any of the pricing conditions (all p's > 0.1).

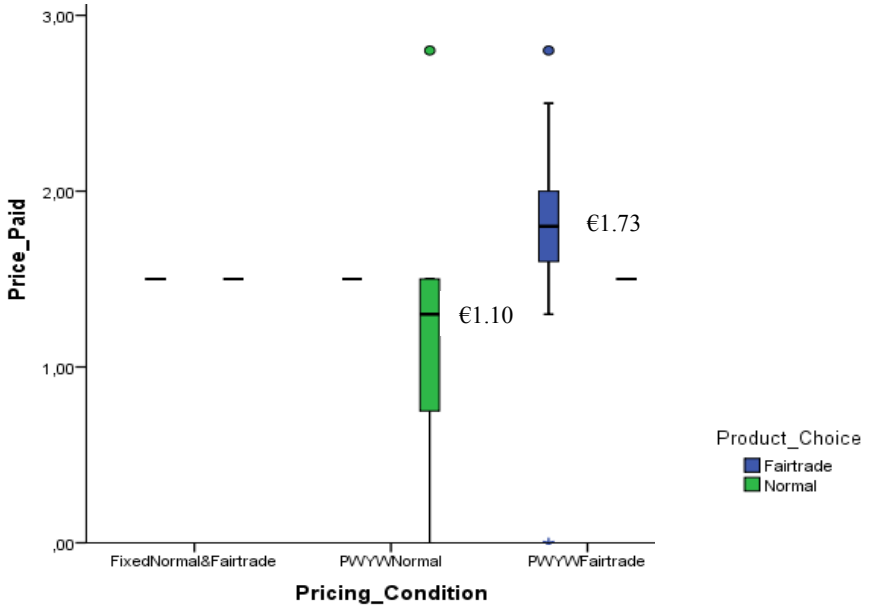
The previous analyses revealed that any differences between the pricing conditions in subsequent posterior analysis could be attributed to the experimental treatments themselves, as opposed to differences in the characteristics of the customers.

4.2. Hypothesis Testing

4.2.1. Willingness to Pay for Fairtrade

It was expected that the additional amount consumers paid under PWYW compared to the usual price for their desired product differed across the pricing conditions. This difference was found to prevail significantly for the total sample having run an ANOVA ($F(2, 101) = 6.12$, $p = 0.003$). Figure 3 illustrates the contributions made towards hot chocolate per pricing strategy and product type, evidently showing the distribution of prices people were willing to pay for Fairtrade lay higher than the distribution of prices willing to be paid for the Normal equivalent as was predicted in hypothesis 1_a, while also lying above the usual price charged.

Figure 3: Average Price Paid for Fairtrade and Normal Hot Chocolate under Different Pricing Strategies



Similar to the indications in previous studies, respondents faced by the PWYW strategy that chose the product type priced flexibly (i.e. selected Normal in $PWYW_{Normal}$ and Fairtrade in $PWYW_{Fairtrade}$), paid an average price of €1.44 for their beverage[3]. A further breakdown, using least squared differences t-tests, indicated that the average price paid for the Normal beverage under $PWYW_{Normal}$ was €1.10[4]. In line with initial prospects in hypothesis 1_c, price paid was €1.50 under $Fixed_{Normal\&Fairtrade}$ while consumers paid on average €0.40 less when Normal non-Fairtrade beverages were priced under a PWYW strategy, significantly lower from when there was fixed pricing ($MD_{FixedNormal\&Fairtrade-PWYWNormal}$ = -0.40 p = 0.02). Hence, notwithstanding the fact that consumers were on average willing to pay for the beverage, they paid significantly less for it. Perhaps the novelty of the pricing strategy caught consumers by surprise; and the fact that people have been conditioned to pay for the products they buy at a café to ensure its survival may have acted as a motivator to at least pay something. In fact, for the normal hot chocolate the average price paid was still 73.33% of the typical fixed price. It was expected that the longer the PWYW strategy would be in place, and the more frequently consumers would come in contact with it by purchasing a Normal hot chocolate priced as such, the lower the average price paid would become. Unfortunately, the limited number of respondents that visited the Coffee Corner at least twice during the three experimental weeks, and were hence confronted with more than one of the experimental pricing strategies, made it impossible to reliably test for its effect; 8 were previously exposed to the control group, 3 to the $PWYW_{Normal}$ and 2 to the $PWYW_{Fairtrade}$.

For Fairtrade products bought during $PWYW_{Fairtrade}$ the price paid was also found to be significantly greater than zero at an average of €1.73 ($t(22) = 13.01, p < 0.001$), and as expected in hypothesis 1_b this was also marginally significantly greater – by an average of €0.23 – than the usual price charged for the beverage at the Coffee Corner ($t(22) = 1.74$, $MD_{FixedNormal\&Fairtrade-PWYWFairtrade}$ = 0.23, p = 0.10). This finding was further supported by the large difference between $PWYW_{Normal}$ and $PWYW_{Fairtrade}$. Confirming expectations of hypothesis 1_a, consumers' willingness-to-pay for Fairtrade products was thought to be higher than for normal products, where consumers in $PWYW_{Fairtrade}$ paid on average €0.63 more for their Fairtrade drink than consumers in $PWYW_{Normal}$ paid on average for a Normal hot chocolate ($MD_{PWYWNormal-PWYWFairtrade}$ = -0.63, $t(40) = 3.06$, p = 0.004). In accordance with

[3] Significantly greater than zero ($t(41) = 12.75$, $p < 0.001$), a first indication that consumers do not act extremely rational, will not walk away without paying, and even pay on average 96% of the fixed price typically charged.
[4] A price significantly greater than zero, contrary to economic assumptions of consumer rationale being that people would walk away with a product for free ($t(18) = 6.78$, $p < 0.001$).

expectations, it appeared that consumers did see an added value in the Fairtrade label and were willing to pay more for it when given the opportunity to do so, in comparison to the conventional alternative.

Consumer Demographics and willingness to pay

Contrary to expectations that consumer characteristics had an influence on willingness to pay for their purchases, this was not confirmed. Given the aforementioned findings, it was a surprise to find that when choosing the product priced under a PWYW strategy, there was no significant difference between the magnitude of willingness to pay for either gender ($t = 0.82$, $p = 0.42$), free income category ($t = 1.04$, $p = 0.31$), or age ($t = -0.64$, $p = 0.53$); for neither Fairtrade nor Normal products did this change. These findings were not expected as older consumers tend to have higher incomes and hence were expected to be less worried about their exact monthly expenditures, particularly on minimal costs such as a beverage. What is more, despite the fact that women often seek to minimise household costs, research has found them to be more willing to pay a surplus for charitable causes than the more money-hungry male. Given that the Dutch consumer has a stereotype of being cheap and underspending, it was expected that Dutch consumers – especially students – would profit from the PWYW strategy and pocket any savings they could make on beverage purchases. Surprisingly, no significant differences could be detected between prices paid by Dutch and Other nationalities ($t = -0.20$, $p = 0.85$). In conclusion, demographics did not appear to explain the differences in prices paid.

The Influential Effect of the Presence of Others on willingness to pay

Consumers are not only influenced in the purchase environment by their own feelings and attitudes, but also by the people around them. The importance of social acceptance however did not manifest as being meaningfully higher when consumers were surrounded by people than when they were alone ($MD = -0.21$, $t(94) = -1.48$, $p = 0.14$). It was thought that the importance that someone places on being socially accepted would be positively linked to additional prices paid for the beverages since customers would feel judged by those around them and the sales people behind the counter. In contrast to this assumption, there was no significant relationship between the importance of social acceptance and the price paid for a beverage labelled as Fairtrade ($B = 0.\ 06$, $t = 0.32$, $p = 0.75$) albeit marginally significant for the Normal alternative ($B = 0.38$, $t = 2.04$, $p = 0.06$). Perhaps respondents that chose the Fairtrade option were already convinced of their good image since they chose the more

socially responsible option, whereas consumers that opted for a Normal hot chocolate felt more of a need to make up for the lost image of not being social responsible by paying a slightly higher price when they cared more about other peoples' judgements. This was however not confirmed. The importance of social acceptance did not appear to significantly influence product choice (B = -0.40, Wald χ^2 (1)=1.24, p = 0.27).

The expectations in hypothesis 2_a were that people that were surrounded by others in their Environmental Context would pay a significantly greater price, and on average when this was the case consumers paid on average €0.59 more when undergoing a purchase priced under PWYW, than when they were alone (B = 0.59, t = 2.28, p = 0.03). This seems to suggest that one's image may play a significant role in psychological pricing and ethical purchasing. Nevertheless, this effect disappeared when looking at the product choice being priced under the PWYW strategy separately. Robustness tests indicated that there was no moderation or mediation by this variable ($p_{context*productchoice}$ = 0.91). It was similarly supposed in hypothesis 2_b that the amount that consumers thought others paid that day for the product under the PWYW pricing strategy would be highly correlated with the amount they chose to give. There was indeed a strongly significant positive correlation between the two variables (r = 0.75, p < 0.001). Due to the possibility of spill-over effects from asking respondents to answer this question after they had decided a price for the beverage it was unfortunately not possible to determine the direction of the causal relationship.

Fairtrade Attitude and Empathy on willingness to pay

Certain other attitudes have also been found to affect how much people wish to give as a donation or in return for a product. Despite having expected that empathy and Fairtrade attitude would positively affect the willingness to pay for the beverage in hypothesis 4_d and 4_b respectively, only Fairtrade attitude was found to significantly positively influence the actual price paid (B = -0.16, t = -2.79, p = 0.01). Similarly, considering only products bought under a PWYW strategy, Fairtrade attitude was found to influence the willingness to pay even stronger (B = -0.34, t = -2.65, p = 0.01). Since Fairtrade attitude was reverse coded with lower values of the variable relating to stronger disagreements with the negatively phrased statements, implying that the lower the score the more positive the respondent's attitude towards Fairtrade. As attitudes to Fairtrade decreased by one unit, respondents' average additional price paid also decreased by €0.16. When looking at products priced and bought

under the PWYW pricing strategies, respondents paid a significant €0.34 more as their rating on Fairtrade attitude became more positive. Interestingly, this effect completely disappeared when considering only Normal products under the PWYW pricing strategy (B = -0.10, t = -0.57, p = 0.58), but remained for Fairtrade products under PWYW pricing with respondents paying on average €0.43 more (B = -0.43, t = -2.66, p = 0.02). This seemed to suggest that Fairtrade attitude influenced product choice, which was confirmed overall as posited in hypothesis 4_a (B = 1.38, Wald χ^2 (1) = 15.09, p < 0.001), and was independent of the Pricing Strategy that was imposed on the products at the time ($p_{FixedNormal\&Fairtrade}$ = 0.02, $p_{PWYWNormal}$ = 0.04, $p_{PWYWFairtrade}$ = 0.02). Although the effect was slightly weaker when Normal products faced a PWYW pricing strategy, logically a more positive attitude to Fairtrade caused people to choose the Fairtrade beverage. Similarly, as expected in hypothesis 4_c, higher empathy levels resulted in a tendency to choose the Fairtrade alternative overall (B = -0.610, Wald χ^2 (1) = 4.24, p = 0.04), but looking at each price condition it was only significant under $PWYW_{Fairtrade}$ (B = -1.20, Wald χ^2 (1) = 3.76, p = 0.05).

4.2.2. PWYW as a Pricing Strategy

Secondly, this study analysed whether or not the pricing strategy of PWYW is a justified one in comparison to the more common form of fixed, cost-plus pricing.

Owing to the novelty of the pricing strategy, sales could have increased across the various pricing conditions. This however was not expected to happen due to the fact that the prices were not actively communicated to students prior to purchase and any such effect would likely have been caused by word-of-mouth and repeat purchases. In addition, the fact that hot chocolate beverages were being offered at a fully flexible price to students could have resulted in severe cannibalisation of the sales and revenues driven by other products. Once again, this was not anticipated given that hot chocolate does not replace the caffeine acquired from coffee, or the soothing or thirst quenching nature of tea and cold, soft drinks. In the table below, Table VII, an overview is provided of the quantity and profit levels over the course of the experiment.

Table VII: Sales Quantity and Sales Revenues per Product Type and Pricing Strategy

Product Type	Sales Quantity				Sales Revenues (€)			
	Total Sample	Fixed Normal&Fairtrade	PWYW Normal	PWYW Fairtrade	*Total Sample*	Fixed Normal&Fairtrade	PWYW Normal	PWYW Fairtrade
Fairtrade	61	23	15	23	96.83	34.50	22.50	39.83
Normal	43	8	19	16	56.85	12.00	20.85	24.00
Hot Chocolate	104	31	34	39	153.68	46.50	43.35	63.83
Total	4236	1095	1505	1636	7542.78	1989.29	2653.42	2900.07

The fact that total sales quantities and profit figures of the Coffee Corner were only measured for the two days each condition was in place made it easier to find significant differences across the three pricing conditions using an ANOVA ($F(2,3) = 11.39$, $p = 0.04$ and $F(2,3) = 18.56$, $p = 0.02$ respectively). Given the significant differences, t-tests could be used to determine the direction of the relationship. The sales quantity was significantly lower under the control condition than under $PWYW_{Normal}$ and $PWYW_{Fairtrade}$ respectively ($MD_{FixedNormal\&Fairtrade-PWYWNormal} = -205$, $p = 0.04$ and $MD_{FixedNormal\&Fairtrade-PWYWFairtrade} = -332.07$, $p = 0.02$), thus it seemed as if the implementation of a PWYW strategy increased sales in the company. Similarly, total sales revenues significantly differed across the pricing conditions: on the days that the PWYW pricing strategy was applied, revenues were significantly higher than during the control treatment ($MD_{FixedNormal\&Fairtrade-PWYWNormal} = -332.07$, $p = 0.02$; $MD_{FixedNormal\&Fairtrade-PWYWFairtrade} = -455.39$, $p = 0.01$). Revenues were highest at €2,900.07 when Fairtrade hot chocolate was flexibly priced, despite not manifesting as significantly greater than when Normal hot chocolate was flexibly priced ($MD_{PWYWNormal - PWYWFairtrade} = -123.33$, $p = 0.21$). Thus, sales quantity significantly increased when hot chocolate was placed under a PWYW strategy, without having a detrimental effect on revenues. This seemed to indicate that a PWYW strategy was more advantageous to a café in terms of bottom line than a fixed pricing strategy.

It appeared as if the observed differences between the groups were related to the implementation of the participating pricing strategy, which resulted in more cross-selling and thus the increase in sales of other products. But, fluctuations in total sales quantity and total sales revenues could have explained away these differences. In fact, conducting a two-tailed z-test of proportions highlighted that the proportion of hot chocolate sales over total sales did not seem to significantly vary between 2.83% in $Fixed_{Normal\&Fairtrade}$ and 2.26% in $PWYW_{Normal}$ ($z = 0.92$, $p = 0.36$), 2.83% in $Fixed_{Normal\&Fairtrade}$ and 2.38% $PWYW_{Fairtrade}$ ($z = 0.73$, $p = 0.47$), and 2.26% in $PWYW_{Normal}$ and 2.38% $PWYW_{Fairtrade}$ ($z = -0.23$, $p = 0.82$). On

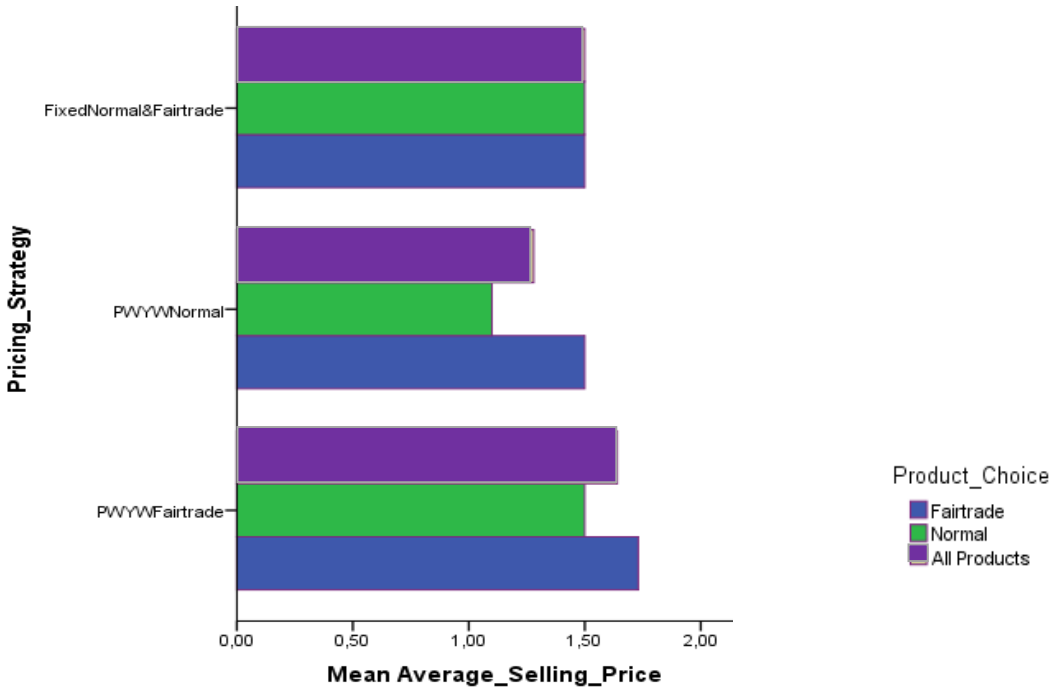
the other hand, the proportion of hot chocolate revenues over total revenues did marginally vary between $Fixed_{Normal\&Fairtrade}$, 2.34%, and $PWYW_{Normal}$, 1.63% (z = 1.82, p = 0.07) – with hot chocolate revenues being lower when a PWYW strategy was applied to Normal hot chocolate – albeit not being significantly different between $Fixed_{Normal\&Fairtrade}$, 2.34%, and $PWYW_{Fairtrade}$, 2.20% (z = 0.36, p = 0.72) or $PWYW_{Normal}$, 1.63%, and $PWYW_{Fairtrade}$, 2.20% (z = -1.59, p = 0.11). These findings indicated that the changes in sales quantity over the three treatment groups, were not proportional to the changes in profits. Despite having too few observations to test for significance, it appeared that the Pricing Strategy did not impact the total quantities of hot chocolate sold, hence a benchmark for sales quantities could be used to estimate hypothetical profits had the same quantity of hot chocolates been sold over all three conditions.

In doing this it was however noticeable that the proportion of Fairtrade and conventional hot chocolate differed across the Pricing Strategies. Since product choice was a dichotomous nominal dependent variable, binary regressions had to be used in order to verify the hypotheses since this is a stronger type of test. A closer look indicated that when Fairtrade was under a PWYW strategy, product choice did not significantly differ from the control condition (B = 0.69, Wald χ^2 (1) = 1.75, p = 0.19). On the other hand, when Normal was under a PWYW strategy, product choice could be predicted as being significantly different than the control condition (Wald χ^2 (1) = 5.81, p = 0.02), with a significantly greater preference for Normal (B = 1.29). Having analysed the 31 products sold under $Fixed_{Normal\&Fairtrade}$ and the 34 products sold under $PWYW_{Normal}$, it indeed appeared as if more than double the amount of consumers chose the Normal product alternative when it was priced under PWYW and the Fairtrade product was a fixed price (19 consumers being 55.88%), than when it was priced at a fixed price equal to the Fairtrade alternative (8 consumers, 25.81%). These results seem to suggest that the implementation of a PWYW pricing strategy could also steer the type of hot chocolate consumers selected – to encourage more ethical consumption, a PWYW pricing strategy could be applied to Fairtrade products. When looking at its effect on baseline sales however, the proportions of product choice had to be assumed as being constant across different quantities per pricing strategy.

As previously discussed, an analysis of the average selling price (ASP) per pricing condition as depicted in Figure 4, revealed that in accordance with hypothesis 1_a, consumers were

willing to pay a price significantly higher for Fairtrade hot chocolate than Normal hot chocolate. In fact, when combining the hot chocolate types it appeared as if the ASP of €1.64 in $PWYW_{Fairtrade}$ was significantly higher than the ASP of €1.28 in $PWYW_{Normal}$ ($t(71) = -2.92$, $p = 0.01$) and marginally higher than the ASP of €1.50 in $Fixed_{Normal\&Fairtrade}$ ($t(68) = -1.71$, $p = 0.10$). This implied that as long as proportions of Fairtrade and Normal hot chocolate sales remained constant, revenues would be highest under $PWYW_{Fairtrade}$ where socially labelled goods were priced under a PWYW pricing strategy and a clear benchmark price was given for the conventional equivalent. On the other hand, it also showed that a PWYW pricing strategy could meaningfully decrease revenues per product sold – as it did in $PWYW_{Normal}$ versus $Fixed_{Normal\&Fairtrade}$ ($t(63) = 2.35$, $p = 0.03$) – when it was applied to the conventional product. A more in depth scrutiny of the effect of pricing strategies on Fairtrade hot chocolate showed that when it was offered at a PWYW pricing strategy, an equal number of units sold as in $Fixed_{Normal\&Fairtrade}$ resulted in elevated revenues by €5.33.

Figure 4: Average Selling Price per Product per Pricing Condition



To eliminate the possibility that this increase existed due to differences in total hot chocolate sales quantities, the benchmark of 39 units was taken. Had 39 units of hot chocolate also been sold, in the existing proportions of product choice, during $Fixed_{Normal\&Fairtrade}$ and $PWYW_{Normal}$, the profits would have been as illustrated in Table VIII below.

Table VIII: Hypothetical Sales Quantity and Sales Revenues per Product Type and Pricing Strategy

Product Type	Sales Quantity				Sales Revenues (€)			
	Total Sample	Fixed $_{Normal\&Fairtrade}$	$PWYW_{Normal}$	$PWYW_{Fairtrade}$	*Total Sample*	Fixed $_{Normal\&Fairtrade}$	$PWYW_{Normal}$	$PWYW_{Fairtrade}$
Fairtrade	69	29	17	23	108.83	43.50	25.50	39.83
Normal	48	10	22	16	63.20	15.00	24.20	24.00
Hot Chocolate	117	39	39	39	172.03	58.50	49.70	63.83

Once again the findings support using a PWYW pricing strategy for Fairtrade products versus fixed pricing, as the sales revenues for a constant number of sales are higher in $PWYW_{Fairtrade}$. This is line with expectations in hypotheses 1_a, and 1_b. Alternatively, the €8.80 lower sales revenue on the 22 units of Normal hot chocolates sold under PWYW in $PWYW_{Normal}$ result in a loss under this treatment condition versus what would usually be pocketed by the company. In this case a PWYW strategy was found to be less effective and less profitable, in line with hypothesis 1_c. The perceived intention of a business' corporate social responsibility programmes may have played a role in these findings as will be discussed in Section 6.3.

4.2.3. PWYW and Perceived Product Tastiness

It must be reiterated that in the nature of the experiment respondents were forced to choose a type of product and the amount they were willing to give for it prior to filling out the questionnaire. Therefore, tastiness index could only be considered as a dependent variable; it did not act as an influencer in any part of the design. It was hypothesised (in 3_a and 3_b) that tastiness would be higher when consumers could decide the price they wanted to pay for their hot chocolate, and that this effect would be stronger for Fairtrade than Normal beverages. Accordingly, using binary regressions with dummy variables for each pricing strategy, a direct effect was detected between $PWYW_{Fairtrade}$ and $Fixed_{Normal\&Fairtrade}$, but not between $PWYW_{Normal}$ and $Fixed_{Normal\&Fairtrade}$, and tastiness ($B = -0.55$, $t = -1.91$, $p = 0.06$ and $B = 0.22$, $t = 0.75$, $p = 0.45$). The difference stemmed from the marginally significant difference in taste perceptions for the Fairtrade beverage between $PWYW_{Fairtrade}$ and $Fixed_{Normal\&Fairtrade}$ ($B = -0.64$, $t = -1.71$, $p = 0.09$) where the taste of the Faitrade hot chocolate was lower when chosen under the PWYW strategy than a fixed price, contrary to this research's expectations. When simply looking at the two PWYW pricing conditions this relationship stayed significant ($F(1,66) = 9.15$, $p = 0.004$), post-hoc tests indicating that the average taste was significantly higher when Normal products were priced under PWYW than when Fairtrade products were ($MD = 0.77$, $p = 0.003$). Despite product choice and tastiness being independent ($t = 1.06$, $p = 0.29$), Fairtrade and Normal hot chocolate were surprisingly rated as being most tasty under

$PWYW_{Normal}$ ($M_{Fairtrade}$ = 4.33, M_{Normal} = 4.58) and lowest under $PWYW_{Fairtrade}$ ($M_{Fairtrade}$ = 3.58, M_{Normal} = 3.87), see Table IX.

Table IX: Average Tastiness per Product Type and Pricing Strategy

	$Fixed_{Normal\&Fairtrade}$	$PWYW_{Normal}$	$PWYW_{Fairtrade}$
Fairtrade	4.21	4.33**	3.58*
Normal	4.36	4.58**	3.87

** p < 0.01 vs. $Fixed_{Normal\&Fairtrade}$*
*** p < 0.01 vs. $PWYW_{Fairtrade}$*

It therefore appeared as if the implementation of a PWYW pricing strategy could have repercussions on product quality and taste perceptions. Furthermore, this seemed to provide indications that people that chose the Fairtrade product for a fixed price, when they could have chosen a cheaper or equally priced Normal product, experienced enhanced feelings of pleasure towards the beverage perhaps due to their ethical behaviour. Moreover, difficulty in making a pricing decision under $PWYW_{Fairtrade}$ for the ethical alternative, and continued thoughts about the price they decided to pay after the purchase occasion may have decreased their enjoyment of the beverage under this condition. Also, consumers that chose the Normal product alternative when they also had the option to get the Fairtrade version at a cheaper or equal price, did not continue to enjoy their beverage as much, which may have indicated some feelings of distress or guilt by their product choice. The additional or lower price they chose to pay however did not cause these changes in taste levels for neither Fairtrade nor Normal ($t = -0.22$, $p = 0.83$ and $t = -0.61$, $p = 0.55$ respectively). These effects were nonetheless too small to be significant, and should be looked at in future research.

4.3. Complete Model Testing

In the previous analysis, the direct relationships between the various variables were analysed, mainly on the dependent variable of interest, price paid. Given the findings that supported the hypothesis that product choice significantly influenced the additional price paid by consumers ($B = -0.29$, $t = -3.47$, $p < 0.001$), and the fact that in theory the two dependent variables product choice and price paid were related in the sense that first consumers chose which product they wanted and secondly they decided how much they were willing to pay required a higher-order Heckman two-stage regression model to be used. Due to the inherent sequential relationship between choosing the type of product, followed by determining the price to pay for it – dependant on the applied pricing strategy – introduces a sample selection bias that could result in erroneous interpretations of findings and poor policy when simply considering the direct relationships. Such a selection effect may undermine the internal validity of research, thus prior results should be checked and confirmed in one model to get a holistic

view of the relationships as depicted in the model in Section 3. Heckman, as applied here, is a more powerful test allowing for the analysis of the key hypotheses while correcting for non-randomly selected samples. It is often used in applied econometrics.

This experiment was conducted as a two-stage process, where in the first stage the decision to purchase Fairtrade or Normal was made by the consumer, and consequently, at the second stage, the consumer had to decide on how much to pay. Since the second stage only occurred when the consumer decided to buy the product under the PWYW pricing strategy in the first stage, the second equation (2) was subjected to selection bias. This occurred due to the fact that the second model was estimated based only on the observations where the PWYW product was selected for consumption. To correct for this selection bias, Heckman's (1979, 1976) two-stage selection model was used, where the first model was estimated with maximum likelihood, and the decision concerning the amount to pay was estimated with a corrected OLS model, that took into account information from the cases where a product under the fixed pricing strategy was made.

(1) Choice Product Type $= \beta_0 + \beta_1(\text{Fairtrade PWYW}) + \beta_2(\text{Normal PWYW}) + \varepsilon$

(2) Price Paid $= \beta_0 + \beta_1(\text{Fairtrade PWYW}) + \beta_2(\text{Normal PWYW}) + \varepsilon$

Initially, a logistic regression was run to examine the variables that made up the decision of which product type to choose. This represented the first stage of the two-step Heckman model. In the sequential second step of the model, the dependent variable – the amount of money given for the product selected – was examined by means of an ordinary least squares regression analysis, corrected for selection bias (Heckman, 1979; 1976), as shown below. To test the complete model based on previous findings in the direct effects, the Heckman model was run numerous times to test for the effects of moderating and mediating variables. Similar to findings from the previous examination, robustness checks confirmed that no significant direct effects could be found for any of the demographic variables in the Heckman model or from being regressed on others' product choice, others' price paid, importance of social acceptance (as posited in hypothesis 2), context, and payment method. To ensure multicollinearity was not a problem, the scales of Fairtrade attitude and empathy were standardised. No large deviations were identified upon using standardised scales versus the absolute scores of respondents, hence for simplicity the absolute scales were maintained. The tables below (Table X and XI) illustrate the most relevant and explicable models as found

from the analysis, where Model 1 reiterated the main effects sought after by this field study, Model 2 illustrated the direct effect of relevant variables, Model 3 tried to identify potential mediators across both dependent variables, and Model 4 seemed to capture the relationships best.

Table X: Step one in two-stage Heckman Model

Predictor	Product Choice (0 = Fairtrade 1 = Normal)			
	Coefficient (SE)			
	Model 1	Model 2	Model 3	Model 4
Constant	-0.649* (0.243)	-2.538* (0.922)	-7.457* (3.075)	-7.457* (3.075)
Fairtrade PWYW	0.450 (0.318)	0.648** (0.376)	6.547** (3.408)	6.547** (3.408)
Normal PWYW	0.797* (0.325)	1.027* (0.387)	6.477** (3.350)	6.477** (3.350)
Fairtrade Attitude		0.831* (0.220)	1.899* (0.713)	1.899* (0.713)
Empathy		-0.228 (0.215)	0.547 (0.526)	0.547 (0.526)
Fairtrade PWYW*Empathy			-1.210** (0.656)	-1.210** (0.656)
Normal PWYW*Empathy			-0.717 (0.0.624)	-0.717 (0.0.624)
Fairtrade PWYW*Fairtrade Attitude			-1.028 (0.820)	-1.028 (0.820)
Normal PWYW*Fairtrade Attitude			-1.329** (0.776)	-1.329** (0.776)

** p < 0.05 ** p < 0.10*

From the basic model presented above, it could be said that the Pricing Strategy does affect the product choice. Under $PWYW_{Normal}$, product choice was significantly affected with a preference for the Normal product type, versus when both products had an equal price. As previously discussed, more than half of the consumers (55.88%) bought the Normal product type under this pricing strategy, while approximately one quarter did in the control group (25.81%). Under the pricing condition where Fairtrade was priced flexibly, no significant difference was expected nor found with respect to product choice in comparison to the control group.

Upon adding Fairtrade attitude and empathy to the model (see the results for Model 2), the direct relationships in the model changed, suggesting that there was an interaction effect at play. In this model, similar to Model 1, a significantly larger portion of consumers faced by $PWYW_{Normal}$ chose the Normal product alternative to the Fairtrade alternative versus

$Fixed_{Normal\&Fairtrade}$. On the other hand, in contrast to Model 1, people faced by $PWYW_{Fairtrade}$ were also marginally significantly more likely than people under $Fixed_{Normal\&Fairtrade}$ to choose the Normal product alternative (Heckman z = 0.65, p = 0.09). The significant direct effect detected between a lower Fairtrade attitude and the choice of a Normal product type (Heckman z = 0.83, p < 0.001) may have explained why these differences were identified. A further analysis of the data suggested that consumers' Fairtrade attitude and empathy significantly differed across the type of pricing strategy to influence product choice. There was a significant interaction at the 10% significance level between the pricing strategy and empathy on product choice, where when Fairtrade was under a PWYW price, higher empathy levels resulted in more people choosing the ethical option (Heckman z = -1.21, p = 0.07) versus under the control group. This interaction however was not significant when Normal products were priced as PWYW. In stark contrast, when Fairtrade products were priced under the PWYW strategy the interaction with Fairtrade attitude versus the control group had no significant effect on product choice (Heckman z = -1.03, p = 0.21), which it did when Normal products were priced as such (Heckman z = -1.33, p = 0.09). In fact, lower levels of Fairtrade attitude under $PWYW_{Normal}$ marginally significantly resulted in consumers choosing the Fairtrade alternative, versus the control condition. Given the expected lower boundaries and lower costs of distress of choosing a Fairtrade product when the alternatives were equally priced, the lower levels of empathy (B = -0.63, Wald χ^2 = 1.09, p = 0.30) and lower levels of Fairtrade attitude (B = 2.74, Wald χ^2 = 5.91, p = 0.02) prevailed in consumers that selected the Normal hot chocolate. It is thus likely that the other pricing strategies triggered a more emotive reaction to the product choice. Logically this seemed to imply that when a PWYW pricing condition was used, the consumer was forced to make trade-offs that affected the product choices they made, and that depending on which type of product was priced using this strategy, different motivating attitudes had the greatest influence.

Table XI: Step two in two-stage Heckman Model

Predictor	Differential Price Paid			
	Coefficient (SE)			
	Model 1	Model 2	Model 3	Model 4
Constant	1.50* (0.161)	-1.184 (4.982)	-4.593 (12.197)	1.402* (0.233)
Fairtrade PWYW	0.000 (0.197)	0.467 (0.966)	4.389 (9.395)	0.000 (0.216)
Normal PWYW	-0.403* (0.192)	0.238 (1.262)	4.383 (9.321)	-0.414* (0.211)
Fairtrade Attitude		0.491 (0.962)	1.236 (2.542)	
Empathy		-0.139 (0.315)	0.420 (0.949)	
Fairtrade PWYW*Empathy			-0.831 (1.698)	
Normal PWYW*Empathy			-0.540 (1.117)	
Fairtrade PWYW*Fairtrade Attitude			-0.667 (1.629)	
Normal PWYW*Fairtrade Attitude			-0.988 (1.940)	

** p < 0.05 ** p < 0.10*

Also central to our hypothesis 1_c, under $PWYW_{Normal}$ the pricing strategy was found to significantly affect the price paid, versus $Fixed_{Normal\&Fairtrade}$. Respondents paid significantly lower prices for Normal products under this pricing strategy than the fixed price charged at the café. Despite the findings that the average respondent was only willing to pay a price below the price of the Fairtrade equivalent in $PWYW_{Normal}$, the reverse was not detected under $PWYW_{Fairtrade}$ implying that notwithstanding the fact that consumers recognise the additional value in Fairtrade and hence pay less for the Normal substitute, they refused to pay a significantly higher price than usual for the Fairtrade equivalent. Noteworthy however is that these findings were in aggregate and did not simply look at those products actually bought under PWYW.

Contrary to the meaningful attitudinal influencers on product choice, there was no significant effect of any of the additional measured variables on price paid. These findings hence supported that attitudes towards Fairtrade and general empathy influenced product choice, which significantly affected overall price paid in the case of Normal products. However, it also seemed to suggest that once the initial decision of product type had been made, consumers already dealt with the internal distress of this decision making process and hence had accepted the consequences of their decision – if there were any – and did not mind to act

accordingly in their decision of what to pay. For example, a consumer who chose to pay a flexible price of less than €1.50 for the Normal hot chocolate when a Fairtrade hot chocolate would have been a fixed €1.50 (i.e. a consumer faced with $PWYW_{Normal}$) may already have felt that his/her choice of the Normal alternative proved that he/she had behaved unethical, and had not responded to the needs of society; hence subsequent upward adjustments in their price paid to overcompensate for the negative consequences and judgments of others did not occur as their choice for Normal in itself already accounted for these expecting judgements. Similarly, for the majority of consumers faced with $PWYW_{Fairtrade}$ may have felt that their choice for the Fairtrade alternative already made them ethical consumers and showed that they supported this trade movement and cause; hence a significantly higher premium for this product seemed unnecessary.

5. Discussion

5.1. Summary of Findings

In the face of burgeoning evidence that PWYW pricing strategies can have a positive effect on a company's financial performance as well as its customers, this research tried to understand the effect of applying such a participative pricing strategy on a social brand as a corporate social responsibility initiative on consumer payment behaviour and product attitudes, and why, as well as the impact on the business. The tests of the conceptual framework linking a company's pricing strategy and product range to consumers' purchase behaviour (in terms of product choice and price paid) and product evaluation revealed that consumers are not only willing to pay more for social brands, but do so even when given the choice to pay zero, yielding positive revenue figures for a company. Moreover, using a real company, an existing social label, and uninformed consumers, this study showed the positive effect that a PWYW pricing strategy can have on revenues when applied to an ethical product, and its detrimental effect on conventional product types. Notwithstanding the undeniable effect on sales revenue, it was also found that consumers' product choice, when exposed to the different pricing strategies, was mediated by the specific attitudes, Fairtrade attitude or empathy. Table XII below shows a summary of the main findings to be discussed.

Table XII: Summary of Hypothesis Testing and Research Findings

Hypothesis	(Not) Rejected	Results
1a: Consumers are willing to pay more for Fairtrade products than their conventional substitutes.	Not Rejected p = 0.004	Using PWYW as a means to uncover consumers' willingness-to-pay it was found that consumers were willing to pay a 15% premium for the Fairtrade label. It appeared consumers placed a value on the additional social product attribute and were willing to partially contribute towards funding it.
1b: Consumers are willing to pay higher prices on average for Fairtrade products under PWYW than their conventional fixed priced alternatives.	Marginally Not Rejected p = 0.10	Upon implementing PWYW on Fairtrade, the average price paid was found to be €1.73, €0.23 above the conventional alternative on offer (at the regular price of €1.50).
1c: Consumers are willing to pay lower prices on average for conventional products under PWYW than their Fairtrade fixed prices alternatives.	Not Rejected p = 0.02	Upon implementing PWYW on Normal beverages, the average price paid was found to be €1.10, €0.40 below the Fairtrade alternative on offer (at the regular price of €1.50).
2a: Prices paid for Fairtrade and conventional products are higher when consumers are surrounded by others than when they are alone.	Rejected $p_{PWYWall} = 0.03$; $p_{PWYWNormal} = 0.12$; $p_{PWYWFairtrade} = 0.24$	The influence of the presence of others was not found to prevail in this research study. Consumers appeared to be equally likely to pay more for the Normal/Fairtrade alternative when they were alone or in the presence of others. Their environmental context additionally had no significant impact on product choice.
2b: Estimates of others' product choice and price paid affects own product choice and price paid respectively.	n/a	Due to the measurement method, it was not possible to draw any conclusions.

3a: Products bought under PWYW receive higher taste and liking scores than those bought under a fixed price.	Rejected $p_{allPWYWvsFixed} = 0.63$	When combining all products selected and paid for under PWYW vs. those chosen and paid for under fixed pricing, no significant difference was detected between tastiness index. Contrary to other research linking pricing to quality perceptions, this research was unable to confirm this; allowing consumers to decide the price they paid instead of charging them with a set price did not influence tastiness.
3b: The aforementioned effect PWYW has on taste and liking is greater for Fairtrade certified products, than Normal products.	Rejected $Taste_{NormalPWYW} > Taste_{FairtradePWYW}$ $p = 0.003$	For both hot chocolates, taste was worst under $PWYW_{Fairtrade}$ and best under $PWYW_{Normal;}$ $Fixed_{Normal\&Fairtrade}$ falling in between. It is expected that under $PWYW_{Normal}$ Normal tasted better because it was cheaper, and Fairtrade tasted better because people felt better about doing well; under $PWYW_{Fairtrade}$ Normal tasted worst due to post-purchase guilt for not choosing the fairer alternative for a cheaper/equal/higher price whereas Fairtrade tasted worse due to post-purchase distress and doubts about adequately high payment decreasing enjoyment levels.
4a: Consumers with a positive attitude towards Fairtrade are more likely to choose the Fairtrade product than the normal alternative.	Not Rejected $p < 0.001$	Consumers with a higher Fairtrade attitude were, as expected, significantly more likely to choose the Fairtrade product in each price condition ($p_{Fixed} = 0.02$; $p_{PWYWNormal} = 0.04$, $p_{PWYWFairtrade} = 0.02$)
4b: Consumers with a positive attitude towards Fairtrade will pay more for Fairtrade products under PWYW than consumers with a low attitude towards Fairtrade.	Not Rejected $p = 0.02$	Fairtrade attitude positively influenced willingness to pay in general ($p = 0.01$) and in particular for Fairtrade products under PWYW ($p = 0.02$). Unsurprisingly, this effect disappeared for Normal products priced under PWYW, where there was no significant impact of Fairtrade attitude ($p = 0.58$).
4c: Consumers with high levels of empathy are more likely to choose the Fairtrade product than the normal alternative.	Not Rejected $p = 0.04$	Although overall higher empathy levels resulted in significantly greater choice for Fairtrade products ($p = 0.04$), however at a closer look this only significantly prevailed under $PWYW_{Fairtrade}$ ($p = 0.05$).
4d: Consumers with high levels of empathy pay more for Fairtrade products under PWYW than consumers with low levels of empathy.	Rejected $p_{all} = 0.31$ $p_{FTunderPWYWFairtrade} = 0.73$ $p_{NormalPWYWNormal} = 0.99$	No significant relationship was found with empathy and price paid, for any of the products in any of the pricing conditions.

This section will focus on discussing the implementations of the three key findings from the previous analysis namely: that people do seem to be willing to pay more for Fairtrade products than conventional alternatives, that a PWYW pricing strategy can be used effectively to increase sales revenues and ethical consumption in parallel, and the wider business implications of corporate social responsibility initiatives.

5.2. Theoretical Implications

This research contributed to a large, existing, highly critiqued research base to investigate whether consumers were willing to pay more for social labels than their conventional alternatives. A field study was implemented using the PWYW pricing strategy methodologically (on both conventional and ethical products) as a way to capture how much

money consumers were truly willing to spend out of pocket for each product type. Findings identified that on average consumers did pay significantly more for the Fairtrade alternative. This seems to suggest that, contrary to many other studies (Boulstridge & Carrigan, 2000; de Pelsmacker et al., 2005b; Carrigan & Attalla, 2001; Memery et al., 2005; Kramer, 1990; Cook, 1991), there is a market for ethically produced goods for which people are willing to pay a premium. Nevertheless, the premium currently charged is higher than the 15.30% premium the average person was willing to pay in this study. In accordance to the extensive literary discussion in (refer to Section 2) consumers do appear to value social product attributes, and firms can charge a premium for them.

It is however recommended that they take into consideration the pricing strategy applied to such products. Although a pricing strategy is typically defined as the means through which a company puts a price on its product or service in order to maximise its profits, within a specified timeframe and scenario (Tellis, 1986), practical examples have also revealed the importance of pricing as a mechanism to influence consumer purchases and company reputations. From the previous results it also appears that Fairtrade products are not as niche as they have previously been thought to be. Therefore, a fixed cost-based pricing strategy, as currently applied to most social brands, prices out many subgroups of the population. Similar to the strategy undertaken in this study, managers are advised to consider their pricing strategy in their marketing mix, especially for ethical products. This could be seen as part of a CSR initiative of the firm, and have paralleled multi-stakeholder rewards, as those witnessed at the Coffee Corner: firms should be able to increase their reputation as do-gooders in society amid an increasingly socially aware consumer base while also benefiting from increased sales revenues, quantities and cross-selling; the social charitable parties acquire a larger awareness amongst consumers but also collect greater financial support; and more consumers are able to engage in socially-responsible shopping, and feel better about themselves despite often paying above average. In addition, they are expected to be more involved with the cause as the PWYW strategy enabled them to express their true support through the price they offer to pay (Gneezy et al., 2010).

The use of a PWYW pricing strategy was examined in this study for Fairtrade hot chocolate, as a type of CSR initiative. Firstly, the effect of CSR campaigns on consumers' product evaluations has been found to have a corresponding positive effect on their company evaluations (Sen & Bhattacharya, 2001). Given the fact that the quality perception of the hot

chocolate did not significantly differ across the treatments, it seemed that this Fairtrade-oriented CSR initiative did not have an effect on the Coffee Corner's image, however future research should directly measure this effect. Although most CSR studies have analysed the consumer response to such programmes, its continuity is ultimately dependent on its effect on the firm's financial wellbeing – something that earlier studies have found conflicting results for (Ellen, Mohr, & Webb, 2000; Luo & Bhattacharya, 2006). This study nevertheless seemed to indicate that CSR can and does have a positive financial effect, although it needs the support of customers. Drawing on conclusions from signalling theory, by implementing a pricing strategy where consumers could pay what they wanted (including €0), the Coffee Corner probably removed the typical assumption by customers that the firm had an ulterior motive by implementing such a CSR project (Luo & Bhattacharya, 2006; Gneezy et al., 2010). By exposing itself to financial risk, the conflict of interest between the parties was removed and the goodwill in the CSR campaign became more obvious, giving consumers an incentive to act accordingly – 44% and 59% of participants chose the Fairtrade option under $PWYW_{Normal}$ and 3 respectively. This pricing strategy not only ensured transparency between the parties, but also gave consumers the opportunity to show the extent to which they were willing to support and hence donate to the respective ethical cause. Similar to findings by Gneezy, Gneezy, Nelson and Brown (2010), and Ellen, Mohr, and Webb (2000), consumers at the Coffee Corner with a higher Fairtrade attitude had a higher tendency to choose the Fairtrade alternative, and when it was priced under a PWYW pricing strategy they even paid more for it, showing their inherent support for the cause.

Sen and Bhattacharya (2001) specified that CSR programmes are of strategic importance in the sense that only those people that are committed to that specific cause will respond positively to the CSR information, while negative CSR information influences everyone. Although this research did not look at the effects of negative CSR information, findings did reveal that consumers who were most dedicated to Fairtrade did in fact support the initiative more by paying a higher price for the product. Nevertheless, even consumers with weaker Fairtrade attitudes were also positively influenced to engage in ethical purchasing. These findings have several implications, namely that managers firstly need to apply strategically appropriate CSR campaigns that have a high fit with the company's competitive advantage and the target groups' interests. In this study, the Coffee Corner implemented a different pricing strategy to promote the consumption of Fairtrade. Since business students are

frequently confronted with today's societal trends and ethics, responsible working conditions may have been more appreciated and accepted than other charitable initiatives.

Additional findings revealed that when Normal products were priced under PWYW, a significantly lower average Fairtrade attitude stimulated consumers to choose the Fairtrade product than under the control group. Contrary to expected findings, even when consumers had a less positive attitude towards the underlying cause, their choice deferral away from the potentially cheaper option in favour of the Fairtrade option seems to suggest that the PWYW strategy highlighted the ethical attribute underlying the purchase. In opposition, when Fairtrade products were priced under PWYW, empathy significantly impacted product choice in favour of the Fairtrade alternative versus when both were under a fixed price. This significance versus the control group disappeared when Normal products were priced under PWYW, once again suggesting the PWYW initiative highlighted the Fairtrade (or not) nature of the product on sale, which influenced the purchase behaviour of consumers. Hence it appears clear that consumers have a positive attitude towards CSR programmes, but in order to steer their purchases towards the ethically responsible one, firms and charities need to activate these attitudes (whether empathy, or attitude towards the cause) and give them a reason. The pricing strategy, as seen in this research, is one way in which this could be done: the Coffee Corner stimulated sales of Fairtrade hot chocolate versus conventional hot chocolate. Charity initiatives could similarly apply these strategies to highlight their underlying cause and encourage donations. On the other hand, many findings concerning donation settings indicate that it is in fact the requesting of a specific, fixed price that increases participation (Briers et al., 2007).

5.3. Practical and Managerial Implications

Managers and marketers of café's and supermarkets ponder about whether enlarging their assortment with classically more expensive socially responsible products, like Fairtrade, will add to their financial performance. Findings stemming from this research seem to suggest that consumers are indeed not only becoming more attitudinally aware and supportive of social brands, but are also willing to pay a premium for these products. The premium the average consumer seemed to be willing to spend for the Fairtrade label on hot chocolate was 15.3%. Although research has often allocated ethical purchasing to certain demographic groups, this research did not exhibit these results. Nevertheless, managers need to consider their target group before implementing a similar strategy, and ensure to have analysed their financial

resources. In order to actively stimulate ethical purchasing however, findings have shown that a PWYW strategy enables a larger group of people to undertake ethical purchasing who pay a premium in comparison to the conventional alternative.

Not only should managers consider their target group to ensure that they have the financial resources to pay the higher prices that tend to accompany Fairtrade and other social brands, but they also need to consider their target consumer for strategic purposes. As the previous discussion highlighted, in deciding which social activities to participate to and assign limited resources to, support of the consumer is essential. Therefore, prior to diving into a CSR activity in general, or a particular one as was described in this research, it should be investigated whether the firm's key segments also support this cause and see its added value. The firm's business activities should also be linked to the CSR activity to provide further credibility. For example, The Fairtrade Organisation Max Havelaar currently focuses its strategy on targeting the whole population in a country through supermarkets; despite having high levels of awareness, sales are minimal. Findings from research, including this one, would suggest that this can be attributed to the fact that involvement levels with the cause are low when simply purchasing the products at a fixed, pre-determined price and hence people cannot express the extent to which they are dedicated to the cause behind the label. Moreover, the population in its entirety is unlikely to support the Fairtrade cause hence they do not respond to the availability of Fairtrade products. Undergoing smaller partnerships with businesses whose key customer segments are dedicated to the cause may allow Fairtrade to enjoy more widespread success and financial rewards.

6. Limitations & Future Research

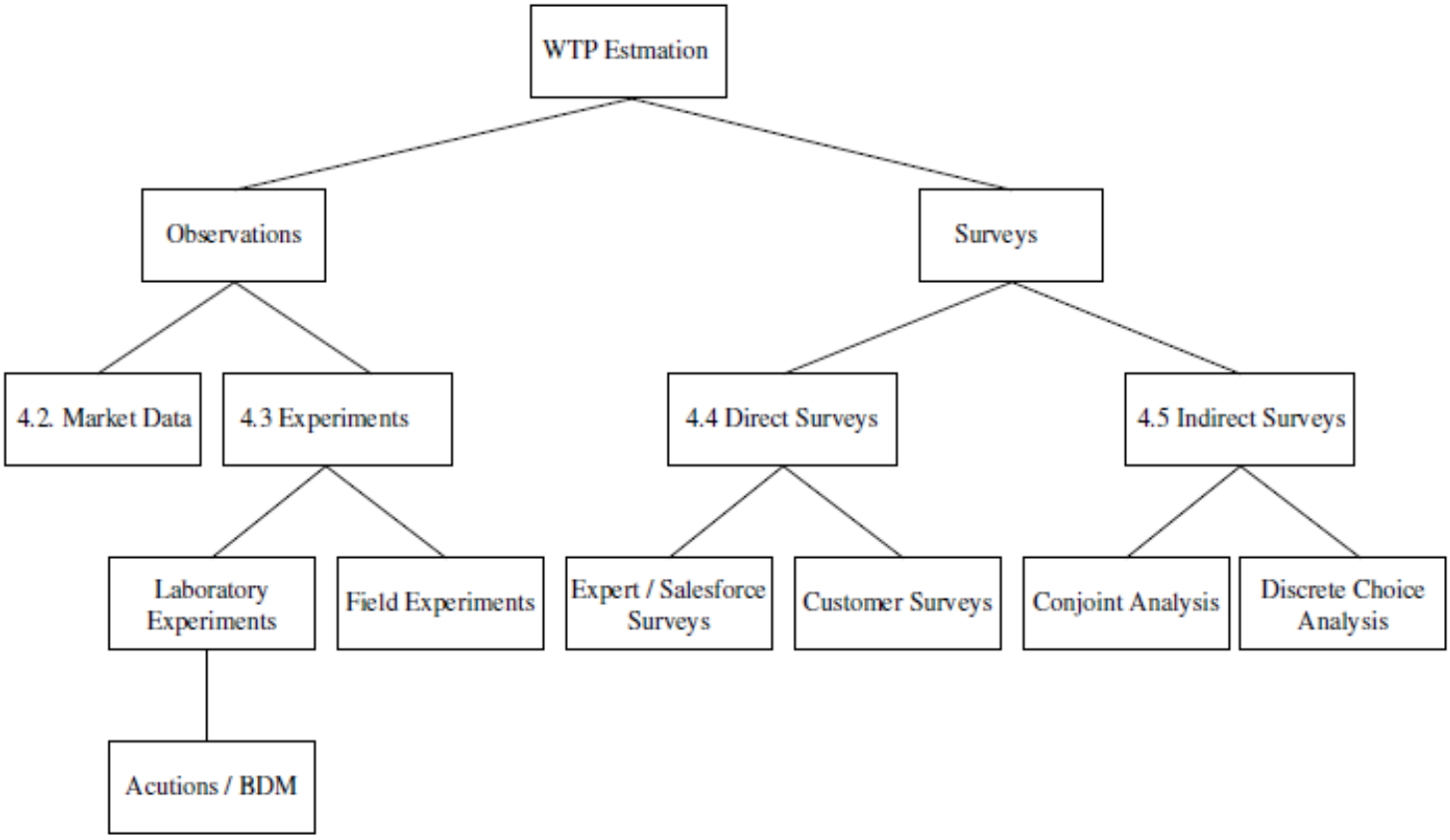
It is safe to assume that this study achieved an adequate level of external validity due to its field experimental nature. Moreover, the controls imposed likely raised the level of internal validity. Nevertheless, several future research initiatives stem from the findings and inherent limitations in this study. Firstly, the nature of a field experiment in itself could have resulted in several limitations. Despite having tried to control for the influence of the most important extraneous variables, it is not impossible that the independent variables were unduly influenced by unexplained variables affecting the internal validity of the research. Furthermore, the fact that the experiment was conducted at one café, at one university, implies that these results are only applicable in this context. Similar experiments should be conducted in future research to also assess differences across locations and sample populations. For example, Fairtrade probably has much more impact in large-scale supermarkets where consumers need to pick their own products from the shelf; it would be interesting to test the effect of a PWYW pricing strategy on social brands in such locations in the future. Secondly, the social brand presented in this research was the Fairtrade label. There are nevertheless many other cause-related marketing campaigns and social brands to which the PWYW pricing strategy could be applied that fall into different corporate social responsibility categories as defined by the CSR scale, Socrates: The corporate social ratings monitor (Kinder, Lydenberg, Domini, 1999 as mentioned in Sen & Bhattacharya, 2001) and that hence may yield different responses. Thirdly, due to the limited time frame in which the field study was conducted there were a limited number of respondents. Data was gathered from a relatively small sample size of only just more than 30 consumers per treatment condition, which also resulted in a lower variance in responses than would have been optimal. As a result of the small sample sizes and infrequent repeat purchases, several hypotheses could not be reliably tested. In order to obtain more reliable and generalisable findings, future research should be done to gather a larger sample size upon which to draw conclusions. Moreover, research is needed to further comment and conclude on the long-term effect and repeated exposure to average prices paid under a PWYW pricing strategy in general, and to ethical brands in particular. Fourthly, hot chocolate was the only product that was tested in this study, limiting the generalisation of the findings since this automatically made it a more female-oriented study. In addition, hot chocolate is not a strict commodity as it is consumed based on some hedonic senses; since Fairtrade products are mainly commodities (e.g. bananas, chocolate, honey, oranges), further research should include numerous product types, both informational and transformational,

across different ranges. Fifthly, notwithstanding the greater interest in bringing participative pricing mechanisms offline, online auctions still have an option catering for the consumer who prefers paying a fixed price. This suggests that there is a group of consumers who prefer the greater power they get from being allowed to decide their own price, whilst there is also a group that prefers the lack of uncertainty involved by paying a fixed price. A person's level of risk aversion therefore may have moderated their product choice, which should be controlled in forthcoming research. Finally, although this research was completed looking at financial measures as the dependent variable, it is limited in the sense that the situation of having different pricing strategies on the different product types may not only have affected how much consumers effectively paid for the product of their choice, but may also have had an influence on consumers' attitude towards the firm or product. These measures were not included in this study, and will likely be value-adding in future explorations.

7. Appendix

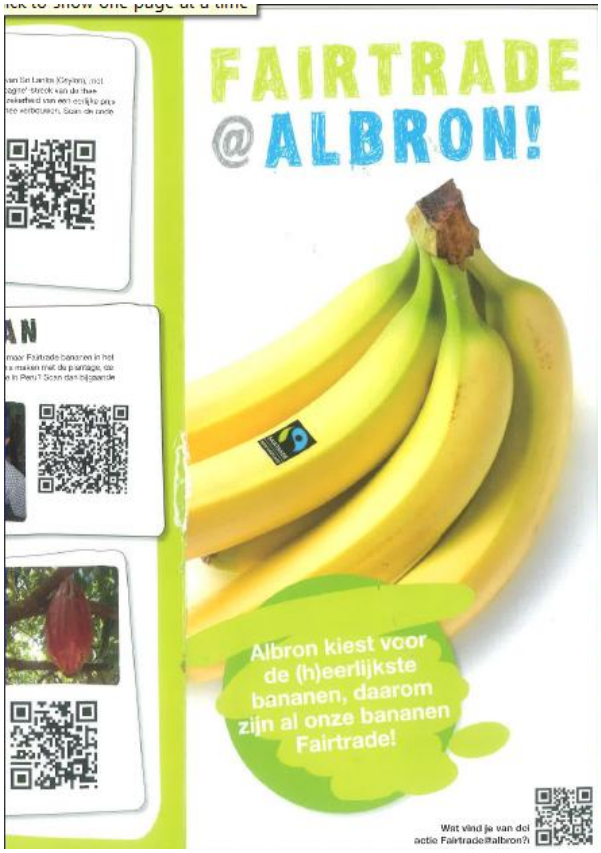
I. WILLINGNESS-TO-PAY RESEARCH METHODS
II. FAIRTRADE INFORMATION ON DISPLAY
III. QUESTIONNAIRE
IV. HOT CHOCOLATE FLYERS/POSTERS
V. ALBRON EMPLOYEE BRIEFING
VI. BEHIND THE COUNTER INFORMATION SHEET: CHOICE, PRICE, PAYMENT METHOD, CONTEXT
VII. DEMOGRAPHICS
VIII. SCREE PLOT
IX. FACTOR ANALYSIS
X. SUMMARY PARAMETRIC TESTS

I. WILLINGNESS-TO-PAY RESEARCH METHODS



Breidert, 2005

II. FAIRTRADE INFORMATION ON DISPLAY



III. QUESTIONNAIRE

Dear Customer,

Thank you for agreeing to participate in this questionnaire concerning the hot chocolate drink you just purchased.

We are interested in improving our service quality; therefore please answer each question as honestly as possible. Please read all the questions *carefully*. There are no right or wrong answers, or trick questions. If you have any uncertainties or questions, do not hesitate to ask the person who gave you this questionnaire.

Note that all your answers shall remain strictly confidential and anonymous.

I. Please answer the questions below by circling the appropriate number on the scales below:

	Never					Everyday
1. Do you normally drink hot chocolate?	1	2	3	4	5	6
	Not at all					Very
2. How much do you like hot chocolate in general?	1	2	3	4	5	6
3. How tasty do you think this hot chocolate was?	1	2	3	4	5	6
4. How much did you enjoy drinking this hot chocolate?	1	2	3	4	5	6

II. Below is a list of statements. Please rate how frequently you feel or act in the manner described.

	Never	Rarely	Sometimes	Often	Always
1. Other people's misfortunes do not disturb me a great deal	0	1	2	3	4
2. It upsets me to see someone being treated disrespectfully	0	1	2	3	4
3. I have tender, concerned feelings for people less fortunate than me	0	1	2	3	4
4. I do not feel sympathy for people who cause their own serious illnesses	0	1	2	3	4
5. When I see someone being taken advantage of, I feel kind of protective over him/her	0	1	2	3	4

III. Please rate the extent to which the following statements apply to you by circling the appropriate number on the scales below:

	Strongly disagree				Strongly agree
1. Fairtrade is too much like a charity: purchasing Fairtrade does not solve anything in the long-run. It just eases your conscience	1	2	3	4	5
2. I am concerned about the Fairtrade issue	1	2	3	4	5
3. Fairtrade products lack credibility	1	2	3	4	5
4. Fairtrade is not compatible with free-market principles: it is impossible to trade fairly and be profitable	1	2	3	4	5
5. Fairtrade is important	1	2	3	4	5

IV. Please answer the questions below as accurately as possible:

Which choice do you think others made today when purchasing hot chocolate at the Coffee Corner in T4? ☐ Fairtrade hot chocolate ☐ Normal, non-Fairtrade hot chocolate

V. Please answer the following questions as accurately as possible by ticking the box that applies to you:

1. Have you noticed this exact promotion in T4 before? ☐ Yes ☐ No
2. Have you previously purchased a hot chocolate under this exact promotion in T4? ☐ Yes ☐ No

P.T.O.

VI. Please rate the extent to which the following statements apply to you by circling the appropriate number on the scale below:

	Very unimportant				Very important
1. How important is it for you to look attractive to others?	1	2	3	4	5
2. How important is it for you to look attractive to dates or potential dates?	1	2	3	4	5
3. How important is it for you to fit in at parties?	1	2	3	4	5

VII. Finally, please answer the remaining demographic questions. Note that your answers will be kept fully confidential.

1. Gender ☐ Male ☐ Female
2. Age _____ years
3. Nationality ☐ Dutch ☐ German ☐ Belgian ☐ French ☐ Other, namely _____
4. How much money do you have left to spend per month after covering fixed expenses (e.g. rent, phone contract, fees)

☐ <= €200 ☐ €201-400 ☐ €401-600 ☐ €601-800 ☐ €801- 1000 ☐ €1001-1200 ☐ >= €1201

VIII. What do you think the purpose was of this questionnaire?

Beste Klant,

Bedankt voor het meedoen aan dit onderzoek met betrekking tot de warme chocolademelk die u net heeft gekocht.

Wij willen de kwaliteit van onze dienstverlening verbeteren, dus beantwoord elke vraag alstublieft zo eerlijk mogelijk. Lees alle vragen alstublieft *zorgvuldig* door. Er zijn geen goede of foute antwoorden, noch strikvragen. Als er onduidelijkheden zijn of als u nog vragen heeft, aarzel dan niet om het de persoon die u deze vragenlijst gaf te vragen.

Al uw antwoorden zullen strikt vertrouwelijk en anoniem worden behandeld.

I. Beantwoord alstublieft de onderstaande vragen door het juiste nummer op de schaal hieronder te omcirkelen:

	Nooit					Dagelijks
1. Drinkt u normaal warme chocolademelk?	1	2	3	4	5	6
	Helemaal niet					Heel veel
2. Hoeveel houdt u in het algemeen van warme chocolademelk?	1	2	3	4	5	6
3. Hoe smakelijk vond u deze warme chocolademelk?	1	2	3	4	5	6
4. Hoeveel heeft u genoten van het drinken van deze warme chocolademelk?	1	2	3	4	5	6

II. Hieronder vindt u een lijst met uitspraken. Geef alstublieft aan hoe vaak u zich zo voelt of op deze manier gedraagt.

	Nooit	Zelden	Soms	Vaak	Altijd
1. Andermans ellende stoort mij niet heel erg	0	1	2	3	4
2. Het maakt mij verdrietig als ik zie dat iemand respectloos wordt behandeld	0	1	2	3	4
3. Ik heb tedere, bezorgde gevoelens voor mensen minder fortuinlijk dan ik	0	1	2	3	4
4. Ik voel geen sympathie voor mensen die hun eigen ernstige ziekte veroorzaken	0	1	2	3	4
5. Als ik zie hoe er gebruik van iemand wordt gemaakt, voel ik mij een soort van beschermende voor hem/haar	0	1	2	3	4

III. Geef alstublieft aan in hoeverre u zich in de volgende uitspraken kunt vinden door het juiste nummer op de schaal hieronder te omcirkelen:

	Volledig mee eens				Volledig mee oneens
1. Fairtrade lijkt teveel op liefdadigheid: de aankoop van Fairtrade lost op lange termijn niks op. Het verlicht alleen je geweten	1	2	3	4	5
2. Ik maak mij zorgen om het Fairtrade onderwerp	1	2	3	4	5
3. Fairtrade producten missen geloofwaardigheid	1	2	3	4	5
4. Fairtrade komt niet overeen met vrije-markt principes: het is onmogelijk om eerlijk te handelen en winstgevend te zijn	1	2	3	4	5
5. Fairtrade is belangrijk	1	2	3	4	5

IV. Beantwoord de onderstaande vragen alstublieft zo nauwkeurig mogelijk:

Welke keuze denkt u dat anderen vandaag hebben gemaakt bij de aankoop van warme chocolademelk bij Coffee Corner T4? ☐ Fairtrade warme chocolademelk ☐ Normale, niet-Fairtrade warme chocolademelk

V. Beantwoord de volgende vragen zo nauwkeurig mogelijk door het vakje dat voor u van toepassing is aan te kruisen:

1. Is deze exacte promotie u al eens eerder opgevallen in T4? ☐ Ja ☐ Nee
2. Heeft u al eerder een warme chocolademelk onder deze promotie in T4 gekocht? ☐ Ja ☐ Nee

Z.O.Z.

VI. Geef alstublieft aan hoe belangrijk de volgende uitspraken voor u zijn door het juiste nummer op de schaal hieronder te omcirkelen:

	Heel onbelangrijk				Heel belangrijk
1. Hoe belangrijk is het voor u om er voor anderen aantrekkelijk uit te zien?	1	2	3	4	5
2. Hoe belangrijk is het voor u om er aantrekkelijk uit te zien voor een date of potentiële date?	1	2	3	4	5
3. Hoe belangrijk is het voor u om er op feestjes bij te horen en bij te passen?	1	2	3	4	5

VII. Beantwoord tot slot alstublieft de resterende demografische vragen. Uw antwoorden zullen strikt vertrouwelijk blijven.

1. Geslacht ☐ Man ☐ Vrouw
2. Leeftijd _____ jaar
3. Nationaliteit ☐ Nederlands ☐ Duits ☐ Belgisch ☐ Frans ☐ Anders, namelijk _____
4. Hoeveel geld heeft u per maand over om te besteden na het betalen van uw vaste lasten (bv. huur, telefoon abonnement)?

☐ <= €200 ☐ €201-400 ☐ €401-600 ☐ €601-800 ☐ €801- 1000 ☐ €1001-1200 ☐ >= €1201

VIII. Wat was volgens u het doel van deze vragenlijst?

IV. HOT CHOCOLATE FLYERS & POSTERS

V. ALBRON EMPLOYEE BRIEFING

Beste Albron Medewerkers,

Voor mijn Master scriptie wil ik onderzoeken hoeveel consumenten bereid zijn om te betalen voor Fairtrade warme chocolademelk, in vergelijking met niet-Fairtrade warme chocolademelk.

Op dag 1 en dag 2 van dit experiment zullen Fairtrade en niet-Fairtrade warme chocolademelk verkocht worden voor €1.50. Als de klant vraagt om een warme chocolademelk kunt u ze een keuze bieden:

" Vandaag heeft u de keuze tussen Fairtrade warme chocolademelk voor €1.50 of een normale, niet-Fairtrade warme chocolademelk voor €1.50"

"Today you have the choice between a Fairtrade hot chocolate for €1.50 and a normal, non- Fairtrade hot chocolate for €1.50"

Als de klant om uitleg vraagt over Fairtrade kunt u het volgende gebruiken:

"Fairtrade producten zijn geproduceerd en verhandeld onder eerlijke voorwaarden. Het keurmerk zorgt ervoor dat er een hogere prijs wordt betaald voor cacao van boeren uit ontwikkelingslanden om daar betere sociale en milieu condities aan de moedigen."

"Fairtrade products are produced and traded under fair trading conditions. The label ensures that a higher price is payed for cocoa from farmers in developing countries to encourage social and environmental development there."

Om uiteindelijke prijs verschillen te identificeren en ze te verklaren, zou ik graag aan u willen vragen om de betaalde prijs, betaalmethode, en context te noteren op het formulier, waarna ik een vragenlijst aan de klant zal geven.

Alvast hartelijk bedankt voor uw medewerking!

Voor overige vragen kunt u altijd bij mij terecht. Ik zal gedurende het experiment aanwezig zijn bij de Coffee Corner in T4.

Vriendelijke groeten,
Laura van de Ven

Albron

VI. BEHIND THE COUNTER INFORMATION SHEET: CHOICE, PRICE, PAYMENT METHOD, CONTEXT

Dag 1: **Vaste prijs (€1.50) voor Fairtrade warme chocolademelk x Vaste prijs (€1.50) voor normale, niet-Fairtrade warme chocolademelk**

Opdracht: **Zeg tegen een klant die een warme chocolademelk besteld: "Vandaag heeft u de keuze tussen Fairtrade warme chocolademelk voor €1.50 of een normale, niet-Fairtrade warme chocolademelk voor €1.50" "Today you have the choice between a Fairtrade hot chocolate for €1.50 and a normal, non-Fairtrade hot chocolate for €1.50"**

Kruis aub de juiste vakjes aan elke keer als er een klant een warme chocolademelk besteld, en een keuze maakt tussen het soort cacao

	Warme Chocolademelk		Betaalwijze		Alleen (0)/Met Anderen (1)
Respondent	*Fairtrade (€1.50)*	*Normaal (€1.50)*	*Cash*	*Kaart*	*0 of 1*
1			cash	kaart	
2			cash	kaart	
3			cash	kaart	
4			cash	kaart	
5			cash	kaart	
6			cash	kaart	
7			cash	kaart	
8			cash	kaart	
9			cash	kaart	
10			cash	kaart	
11			cash	kaart	
12			cash	kaart	
13			cash	kaart	
14			cash	kaart	
15			cash	kaart	
16			cash	kaart	
17			cash	kaart	
18			cash	kaart	
19			cash	kaart	
20			cash	kaart	
21			cash	kaart	
22			cash	kaart	

VII. DEMOGRAPHIC ANALYSIS OF TREATMENT GROUPS

Since hot chocolate is a sweet drink that people indulge in, it is quite logical that the majority of the sample was female (66.7%), also being significantly bigger chocolate consumers than men ($t(94)= -3.42$, $p = 0.001$: $M_{women} = 4.33$ $SD_{women} = 0.91$, $M_{men} = 3.67$ $SD_{men} = 0.84$). Despite more women having participated than men, it did not appear that there was a significant difference in gender composition across the three pricing conditions ($\chi^2(2) = 0.44$, $p = 0.80$). Moreover, given the location of the field experiment at the Erasmus University of Rotterdam the age distribution was slightly positively skewed with a mean age of 24.12 years (SD = 7.95) and the majority, 59.4%, of the sample was between the age of 20 and 25 as shown in the table left. Moreover, the majority of participants came from The Netherlands (84.0%) – this resulted in the need to combine the existing categories of nationality from six to two: Dutch and Others. No significant difference was subsequently found between the ages ($F(2,93) = 1.67$, $p = 0.20$) and nationalities ($\chi^2(2) = 1.59$, $p = 0.45$) of respondents across the three pricing conditions.

Table I: Age Distribution

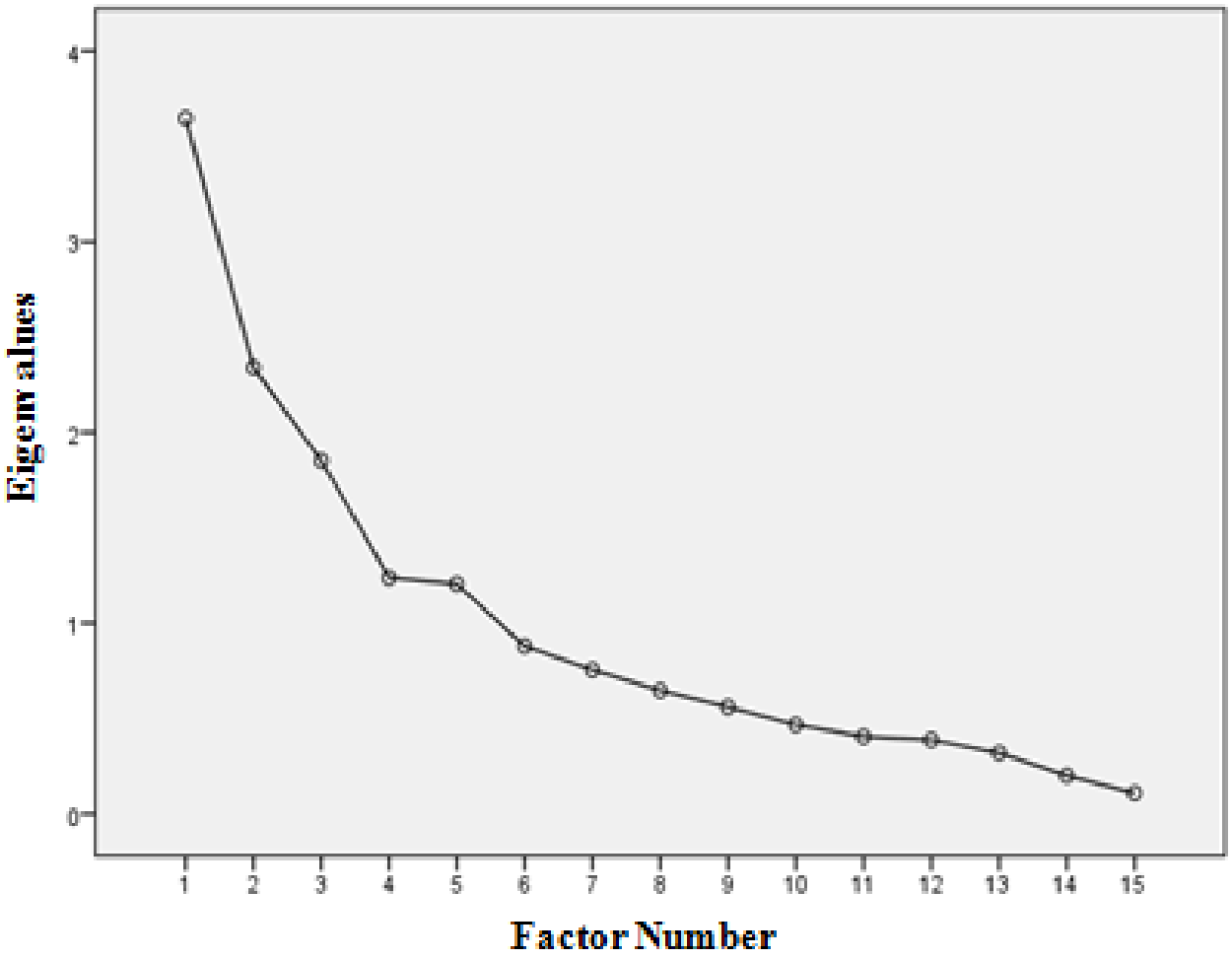
Age	Frequency	Percentage
< 20 years	19	19.8%
20 -25 years	57	59.4%
26 - 30 years	14	14.6%
31 - 35 years	0	0.0%
36 - 40 years	0	0.0%
41 - 45 years	1	1.0%
46 - 50 years	1	1.0%
> 50 years	4	4.2%
Total	**96**	**100%**

Table II: Free Income Distribution

Free Income (€)	Frequency	Percentage
< = 200	28	29.2%
201 - 400	25	26.0%
401 - 600	26	27.1%
601 - 800	4	4.2%
801 - 1000	6	6.3%
1001 - 1200	1	1.0%
> = 1201	6	6.3%
Total	**96**	**100%**

The amount of money someone had after paying fixed expenditures (referred to as free income in the remainder of the text) and age were established to be significantly positively related ($r = 0.68$, $p < 0.001$), given that older people tend to have higher free incomes, especially in a University. Hence, similar to age, free income was slightly positively skewed with 29.2% of the sample having less than or equal to €201 per month, 26% having between €201 and €400, and 27.1% having between €601 and €800 to spend freely after having paid their fixed costs. Given that free income has been shown to significantly influence purchase habits of consumers, it was important to note that the distribution of free income was not found to be significantly different between respondents in the three pricing conditions through a Kruskal-Wallis test ($p = 0.59$). The groups exposed to the three pricing strategies did not differ significantly from one another in terms of demographic characteristics.

VIII. SCREE PLOT



IX. FACTOR ANALYSIS

Table III: Eigenvalue Factor Loadings (only factor loadings > 0.4 were presented)

	Factor Loading					
Items	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Communality
It upsets me to see someone being treated disrespectfully	**0.90**					0.83
I have tender, concerned feelings for people less fortunate than me	**0.87**					0.77
I do not feel sympathy for people who cause their own serious illnesses (re-coded)	**0.51**					0.37
When I see someone being taken advantage of, I feel kind of protective towards him/her	**0.72**					0.58
How important is it for you to look attractive to others		**0.86**				0.78
How important is it for you to look attractive to dates or potential dates		**0.84**				0.71
How important is it for you to fit in at parties		**0.72**				0.55
How tasty do you think this hot chocolate was			**-0.94**			0.90
How much did you enjoy drinking this hot chocolate			**-0.95**			0.93
Do you normally drink hot chocolate				**0.87**		0.75
How much do you like hot chocolate in general				**0.86**		0.75
Fairtrade is too much like a charity: purchasing Fairtrade products does not solve anything in the long run. It just eases your conscience					**0.79**	0.65
Fairtrade products lack credibility	-0.51				**0.67**	0.55
Fairtrade is not compatible with free-market principles: it is impossible to trade fairly and be profitable					**0.77**	0.61
Fairtrade is important (re-coded)					**0.71**	0.57
Name of Factor	*Empathy*	*Importance Social Acceptance*	*Tastiness*	*General Drinking Behaviour*	*Fairtrade Attitude*	
% Variance Explained	24.32%	15.60%	12.35%	8.25%	8.03%	68.54%
Cronbach's Alpha	0.78	0.74	0.93	0.66	0.72	

Table IV: Cronbach alpha statistics per factor per price condition

Factor (Index)	**Cronbach Alpha**			
	$Fixed_{Normal\&Fairtrade}$	**$PWYW_{Normal}$**	**$PWYW_{Fairtrade}$**	**Total**
General Drinking Behaviour	0.62	0.66	0.71	**0.66**
Tastiness	0.96	0.88	0.90	**0.93**
Fairtrade Attitude	0.73	0.77	0.67	**0.72**
Empathy	0.81	0.82	0.74	**0.78**
Importance of Social Acceptance	0.75	0.62	0.83	**0.74**

X. SUMMARY PARAMETRIC TESTS

Table V: Descriptives Coffee Corner

Variable	*Choice*	*Total Sample*					*Fixed$_{Normal\&Fairtrade}$*					*PWYW$_{Normal}$*					*PWYW$_{Fairtrade}$*				
		Mean	*SD*	*Skewness*	*Kurtosis*	*N*	*Mean*	*SD*	*Skewness*	*Kurtosis*	*N*	*Mean*	*SD*	*Skewness*	*Kurtosis*	*N*	*Mean*	*SD*	*Skewness*	*Kurtosis*	*N*
Price Paid	*Fairtrade*	1.59	0.40	-1.21	8.08	61	1.50	0.00	0.00	0.00	23	1.50	0.00	0.00	0.00	15	1.73	0.64	-1.63	3.68	23
	Normal	1.32	0.50	-1.06	3.98	43	1.50	0.00	0.00	0.00	8	1.10	0.71	0.12	0.67	19	1.50	0.00	0.00	0.00	16
	Total	1.48	0.46	-1.18	4.79	104	1.50	0.00	0.00	0.00	31	1.28	0.56	-0.74	2.24	34	1.64	0.50	-1.33	5.23	39
Estimate Price Paid Others	*Fairtrade*	1.38	0.41	-0.82	1.54	58	1.50	0.00	0.00	0.00	23	1.01	0.29	-0.73	3.58	15	1.53	0.55	-1.24	1.49	20
	Normal	1.39	0.55	0.33	1.37	41	1.50	0.00	0.00	0.00	8	1.07	0.48	0.11	1.12	18	1.72	0.57	0.64	0.46	15
	Total	1.39	0.47	-1.01	1.63	95	1.50	0.00	0.00	0.00	31	1.04	0.40	0.10	1.94	33	1.61	0.56	-0.37	1.32	35
General Drinking Behaviour	*Fairtrade*	4.10	0.98	-0.36	-0.63	56	4.02	0.94	-0.13	-0.86	21	4.47	1.08	-1.04	0.61	15	3.90	0.93	-0.39	-0.27	20
	Normal	4.13	0.88	0.20	-0.60	40	4.43	0.93	-0.58	-1.33	7	4.03	0.90	0.59	0.19	18	4.10	0.85	0.04	-0.22	15
	Total	4.11	0.94	-0.19	-0.60	96	4.13	0.94	-0.21	-1.00	28	4.23	0.99	-0.20	-0.51	33	3.99	0.89	-0.26	-0.24	35
Tastiness	*Fairtrade*	4.02	1.22	-0.18	-1.04	56	4.21	1.26	-0.10	-1.21	21	4.33	1.18	-0.95	0.32	15	3.58	1.15	0.08	-1.05	20
	Normal	4.28	1.09	-0.74	0.35	40	4.36	1.60	-0.58	-1.29	7	4.58	0.65	0.39	-0.28	18	3.87	1.19	-0.63	-0.38	15
	Total	4.13	1.17	-0.39	-0.69	96	4.25	1.32	-0.21	-1.23	28	4.47	0.92	-0.97	1.56	33	3.70	1.16	-0.20	-0.99	35
Empathy	*Fairtrade*	3.04	0.62	-0.63	0.55	56	2.81	0.58	-0.69	1.41	21	3.18	0.63	-0.80	0.40	15	3.19	0.61	-0.93	1.87	20
	Normal	2.71	0.78	-0.61	-0.66	40	2.46	0.94	-0.27	-0.94	7	2.76	0.87	-0.80	-0.65	18	2.75	0.61	-0.34	-0.88	15
	Total	2.90	0.71	-0.73	-0.10	96	2.72	0.68	-0.73	0.49	28	2.95	0.79	-0.95	0.10	33	3.00	0.64	-0.55	0.01	35
Fairtrade Attitude	*Fairtrade*	2.42	0.64	0.31	-0.13	56	2.42	0.59	1.36	3.71	21	2.35	0.73	-0.24	-1.33	15	2.46	0.66	0.14	-1.33	20
	Normal	3.12	0.80	0.23	-0.02	40	3.50	0.65	1.22	2.20	7	3.04	0.98	0.41	-0.64	18	3.03	0.60	-0.40	0.58	15
	Total	2.71	0.79	0.46	0.09	96	2.69	0.76	0.93	0.93	28	2.73	0.93	0.47	-0.05	33	2.71	0.69	-0.13	-0.90	35
Importance Social Acceptance	*Fairtrade*	3.73	0.66	-0.21	-0.14	56	3.63	0.69	-0.76	-0.12	21	3.69	0.53	0.75	-0.16	15	3.87	0.74	-0.15	-0.45	20
	Normal	3.59	0.75	-0.96	3.05	40	3.57	0.69	-0.43	2.58	7	3.74	0.87	-1.67	5.60	18	3.42	0.62	-0.22	1.30	15
	Total	3.67	0.70	-0.60	1.60	96	3.62	0.68	-0.65	-0.05	28	3.72	0.72	-1.29	5.43	33	3.68	0.72	0.00	-0.10	35
Age	*Fairtrade*	25.14	9.31	2.70	7.22	56	28.14	13.40	1.72	1.75	21	23.33	6.87	3.26	11.77	15	23.35	3.33	-0.22	-1.06	20
	Normal	22.70	5.33	4.00	20.78	40	21.14	2.85	0.94	-0.15	7	22.56	3.20	0.39	-0.96	18	23.60	7.81	3.48	12.95	15
	Total	24.12	7.80	3.15	10.57	96	26.39	12.01	2.12	3.55	28	22.91	5.13	3.39	15.34	33	23.46	5.60	3.61	17.53	35
Nationality	*Fairtrade*	1.20	0.40	1.54	0.39	56	1.25	0.44	1.25	-0.50	21	2.00	1.27	0.46	-0.73	15	1.10	0.31	2.89	7.04	20
	Normal	1.15	0.36	2.04	2.26	40	1.14	0.38	2.65	7.00	7	1.17	0.38	1.96	2.04	18	1.13	0.35	2.40	4.35	15
	Total	1.18	0.39	1.70	0.92	96	1.22	0.42	1.42	0.00	27	1.21	0.42	1.48	0.19	33	1.11	0.32	2.53	4.69	35
Free Income	*Fairtrade*	1.73	1.80	1.21	0.67	56	2.19	2.14	0.99	-0.39	21	1.33	1.59	1.96	4.83	15	1.14	1.07	-0.37	-2.80	20
	Normal	1.43	1.38	1.22	2.00	40	1.14	1.07	-0.37	-2.80	7	1.39	1.33	0.69	-0.37	18	1.60	1.59	1.74	3.51	15
	Total	1.60	1.64	1.28	1.22	96	1.93	1.96	1.19	0.45	28	1.36	1.43	1.35	2.19	33	1.57	1.54	1.14	1.05	35

An independent samples Kruskal-Wallis test further confirmed that the distributions of empathy, Fairtrade attitude, importance of social acceptance, age, and general drinking behaviour across pricing conditions were not significantly different from each other (p value of 0.18, 0.90, 0.89, 0.80, and 0.63 respectively). Given the fact that the three groups were being compared this was vital and suggested that the dataset could be reliably used for subsequent statistical analyses.

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