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Why Consumers Pay Voluntarily: Evidence from Online Music

by

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Evidence from Online Music[1]

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Abstract:

Customers of the online music label/store Magnatune can pay what they want for albums as long as the payment is within a given price range ($5-$18). On average, customers pay significantly more than they have to. We ran an online survey and collected responses from 227 frequent Magnatune customers to gain insights about the underlying motivations to pay more than necessary. We control for individual response- as well as sample selection-bias and find that reciprocity appears to be the major driver for generous voluntary payments. Being inclined to conform to social norms is a positive determinant for payments around the recommended price ($8).

JEL classifications: C83, D03, D82, L82, L86, M21

Keywords: social preferences; pro-social behaviour; music industry; reciprocity; guilt; social norms; altruism; fairness; social-image concerns; survey; PWYW; pay-what-you-want

1. Introduction

What motivates pro-social behaviour? What makes consumers pay more than they have to? We analyse a real-life context, the online music label/store Magnatune, in order to find out more about the underlying motivations behind voluntary payments. Magnatune lets customers choose from a given price range ($5 to $18 for an album), recommending $8. Hence, customers can essentially pay what they want for music. Regner and Barria (2009) analyse all the label's transactions over an 18-month period and find that most customers pay significantly more than the bare minimum. The average payment per album is $8.20, i.e. higher than the recommended price of $8 suggested on the website. In addition to the frequent occurrence of voluntary payments, their analysis shows that these payments are not randomly distributed. Instead, type-dependent patterns among frequent customers can be observed and three main customer types can be distinguished: generally paying i) the minimum of $5, ii) the recommended price of $8 or iii) significantly above $8 on average. This would indicate customer-specific, individually heterogeneous social preferences. Based on the finding of voluntary payments at Magnatune the aim of this paper is to shed more light on customers' motivations to pay more than they have to. For this purpose we designed an online survey and invited frequent Magnatune customers to participate. We used their survey responses and their actual transactions at Magnatune in order to gain insights about their underlying motivations. Why do they pay more than they have to or even more than Magnatune recommends? While finding out more about such basic human decision

making is of general interest, these insights should be particularly beneficial to assess when a

voluntary payment-based business model[3] may be successful and how to improve its design.

We invited 509 frequent Magnatune customers to participate and received 227 replies. In the

survey, participants were asked i) open-ended questions about their online music experience

(in general and specifically at Magnatune, in part 1), ii) about payment behaviour at

Magnatune (theirs and in general, in part 2) and iii) background questions (age, gender,

income, general dispositions, in part 3). The survey responses are complemented by data

about the actual transactions of the invited frequent customers. This allows us to validate

participants' responses with respect to their payment at the individual level (e.g. whether it is

below/around/above the recommended price). We control for self-serving bias (around 15%)

in the responses before proceeding to our analysis of explanatory factors of voluntary

payments. As we have purchase data of all survey invitees – whether they responded or not –

we can also control for sample selection bias. The main results are the following. Reciprocity

appears to be a strong motivation for participants who make generous payments. Being

inclined to follow social norms is a positive determinant for payments around the

recommended price.

Our study complements the existing literature on social preferences. We relate survey

responses to actual purchase data in order to find out more about the underlying motivations

behind pro-social behaviour. This allows us to dig deeper than related lab and field

experiments based on observational data. To the best of our knowledge, only Pruckner and

Sausgruber (2013) take a similar approach in their analysis of payment honesty at Sunday

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[3] Magnatune's business model can be regarded as a pay-what-you-want (PWYW) model with two modifications (minimum and recommended price). See Chen et al. (2009) for a theoretical analysis of "pay-as-you-wish" pricing in comparison to conventional "pay-as-asked" pricing. The evidence for voluntary payments in consumption includes Kim et al. (2009), Regner and Barria (2009), Gneezy et al. (2010), Riener and Traxler (2012), Gautier and van der Klaauw (2012), Gneezy et al. (2012), Kim et al. (2013).

newspaper vending machines, using verified field and survey data. Our results contribute to a better understanding about the determinants of voluntary payments in the context of PWYW (see also Kim et al., 2009; Gneezy et al., 2012; Jang and Chu, 2012; Machado and Sinha, 2012; Johnson and Cui, 2013; Kim et al., 2013; Schmidt et al., 2014). With the exception of Schmidt et al. (2014) existing studies are not set up to test for the effect of reciprocity as an underlying motivation for voluntary payments. Our survey design allows to test for reciprocity concerns in a real-life setting and results indicate their relevance. Our findings also confirm that norm conformity has a positive effect on payments, previously established only in the laboratory (Jang and Chu, 2012). These insights about the specific drivers of pro-social behaviour contribute to a better understanding of the scope of PWYW models, when they work, and why.

Section 2 discusses the related literature. First, we review the social preferences literature that serves as the basis for the potential underlying motivations we consider. Then, we discuss related work on drivers and design features that affect payments in PWYW contexts. Section 3 describes the methodological approach of the study. Section 4 presents and discusses the results, and Section 5 concludes.

2. Related literature

2.1. Motivations of pro-social behaviour

The literature on social preferences suggests the following motives for pro-social behaviour: altruism (e.g. the "warm glow" of contributing to a good cause), fairness, reciprocity concerns, guilt (the moral burden of paying less than someone may expect), social-image

concerns (the desire to be liked and respected by others) and conformity to a social norm.[4]

The remainder of this section outlines how these underlying motivations may affect

Magnatune[5] customers' willingness to pay.

As suggested by Andreoni (1990) individuals may not only derive the standard indirect

benefit from their contributions (e.g. future consumption of the good) but also a direct

benefit, the so-called "warm glow" of contributing to a good cause. Hence, the voluntary

payments of Magnatune customers may be motivated by *altruism*. Customers who like the

basic idea of the service contribute with a voluntary payment in order to support Magnatune

and the respective artist.

Fehr and Schmidt (1999) or Bolton and Ockenfels (2000) model *fairness concerns* by an

aversion to inequity. Artists at Magnatune are relatively unknown. Most customers will

probably be on roughly the same income level as the artist whose music they buy. Hence, it

seems reasonable to assume that voluntary payments – 50% goes to the artist – may be

motivated by fairness concerns towards the artist. Payments in excess of $5 may be

motivated to reduce the perceived inequity between customer and artist.

Concerns for *reciprocity* (e.g. Rabin, 1993; Dufwenberg and Kirchsteiger, 2004) are also a

possible explanation of voluntary payments to Magnatune. This seems plausible in view of

[4] See Fehr and Schmidt (2006) for a survey of outcome-based and reciprocity models. Also plausible but elusive to identify in our survey design are self-image concerns suggested in the literature on pro-social behaviour, see e.g. Bénabou and Tirole (2011).

[5] Founded in October 2003, the online music label/store Magnatune offers a wide variety of different music genres and can be seen as a niche label offering music of relatively unknown artists. The revenue is evenly split between artist and Magnatune. Music albums are sold via the label's online store where no DRM system is implemented. Files are not protected. Quality and file format are up to the customer. Our analysis applies to the download-based model used from 2003 to 2010 (Magnatune has since switched to a subscription-based business model). The price range for an artist's album was from $5 to $18, with Magnatune recommending $8. The actual price was selected by the customer from a pop-up menu where $8 was the default setting. Magnatune's focus is on music of less-known artists. In this context, aspects of experience goods are of particular importance and are fully taken into account at Magnatune. Potential consumers have various means available to sample music (streaming access, online radio service) and find out how much an album is worth to them before making a decision about payment. In 2007 this stood in stark contrast to the practice of conventional online music stores that only offered 30-second snippets of songs for sampling, if at all.

the comprehensive and free pre-purchase access of Magnatune, allowing customers to make an informed buying decision. These ample opportunities to experience the music (especially important since Magnatune artists are relatively unknown) reduce consumers' uncertainty about the album's quality and, in turn, increase their expected value from consumption. Essentially, Magnatune's facilitated discovery of music could be regarded as kind, customer-oriented behaviour by consumers, particularly if contrasted with the offer of competitors (limited pre-purchase access) at that time. In a model of sequential reciprocity (Dufwenberg and Kirchsteiger, 2004) customers with concerns for reciprocity will appreciate this kind approach and tend to pay more than necessary, while customers with no or low concerns for reciprocity will not.

It seems plausible that the morality of online music customers plays a role for their payment decision. In fact, Magnatune also specifically addressed this on its website. It promised "Internet music without the guilt" for several years. The emotion of *guilt* may be incurred when downloading music from P2P networks without being able to pay for it. In contrast, customers of Magnatune are given the opportunity to pay something for the music chosen. Hence, they are provided with a mechanism to alleviate guilt – being specifically reminded by the website. Such guilt aversion is formalised by Battigalli and Dufwenberg (2007). Paying only the minimum causes a psychological cost of guilt. Customers who are sensitive to guilt maximise their utility by paying more than necessary.

In addition to monetary payoffs, *social-image* models (see e.g. Bénabou and Tirole, 2006) allow individuals to be also motivated by the desire to be liked and respected by others. The relevance of social-image concerns in charity contexts is analysed by Ariely et al. (2009) who show that participants exert more effort (i.e. donate more) in a public rather than a

private setting, and DellaVigna et al. (2012), who connect door-to-door charity giving to potentially welfare-reducing effects of social pressure. The visibility of paying for music at an online store is no doubt rather low, but we do not know to what extent customers disclose their payment behaviour in their relevant community. They may talk about their purchase and what they pay so that social reputation could matter. Hence, it may still be instructive to see whether social-image concerns are an underlying motivation for being generous.

Finally, conforming to a *social norm* is another relevant motivation for pro-social behaviour (see e.g. Bernheim, 1994; Bicchieri, 2006; Schultz et al., 2007). Magnatune explicitly recommends \$8 as payment. Hence, the social norm in this situation is made very salient. This should lead to a high level of norm-following behaviour if customers are indeed motivated to obey norms.

2.2. Studies about the drivers of voluntary payments

Following up on the empirical evidence of voluntary payments in the context of PWYW several studies try to shed more light on the determinants of these voluntary payments. This includes investigating the (general) underlying motivations for paying more than necessary as well as testing the effect of (specific) PWYW design features on voluntary payments. Results from Kim et al. (2009) based on survey data indicate that fairness concerns motivate the voluntary payments for cinema tickets and altruism is the motivation in their hot beverages study. Gneezy et al. (2012) analyse voluntary payments of restaurant customers and vary whether their payments are observed or not. They conclude that self-image concerns are an important determinant of voluntary payments, while social-image concerns (triggered by a public context) may have a detrimental effect. Jang and Chu (2012) conduct a series of

lab experiments and conclude that self-image motives and norm conformity are the two principal underlying mechanisms of voluntary payments. Machado and Sinha (2012) use a survey, a lab experiment and a field study to test what affects payments under PWYW. Their results are in line with fairness concerns and reference prices but do not support social-image concerns. Kim et al. (2013) investigate the effect of the social distance within the buyer–seller relationship and the provision of reference prices. Their results indicate that an external reference price increases the average price paid. The effect of decreased social distance is inconclusive suggesting that social-image concerns may not necessarily matter in the context of PWYW. Also Johnson and Cui (2013) study the effect of external price references (minimum, maximum, suggestion) using hypothetical scenarios of purchasing concert tickets. They conclude that reference prices do not necessarily induce customers to pay more, especially if their price sensitivity is low or their internal reference price is high. Mak et al. (2013) test in a lab experiment whether consumers make voluntary payments out of strategic considerations (in order to keep the PWYW seller in business) and confirm this. In another lab experiment Schmidt et al. (2014) set up a product market in which buyers and sellers repeatedly interact. Generally, buyers make voluntary payments, even in a treatment where reciprocity and reputation concerns are switched off, which they attribute to fairness concerns. When reputation and reciprocity concerns are allowed to play a role, prices paid are higher except in the last period, an indication for strategic considerations among buyers. To summarise, Gneezy et al. (2012) and Jang and Chu (2012) find evidence for self-image concerns (other studies are not set up to test for them). While results in Kim et al. (2009), Machado and Sinha (2012) and Schmidt et al. (2014) are in line with fairness concerns, Jang and Chu (2012) find that consumers' voluntary payments are rather due to their caring about

their self-image than fairness towards the seller. Other studies do not focus on fairness motives. Only the designs of Gneezy et al. (2012), Machado and Sinha (2012) and Kim et al. (2013) allow for the test of social-image concerns, yet their evidence does not suggest social approval motives play a significant role in the context of PWYW. Among studies that focus on the effect of reference prices and norm conformity in their designs Jang and Chu (2012), Machado and Sinha (2012) and Kim et al. (2013) find a positive effect on voluntary payments, although Johnson and Cui (2013) point out that reference prices do not automatically induce customers to pay more. Only Schmidt et al. (2014) incorporate a test for reciprocity concerns in the design of their lab experiment, but do not find evidence for them. Finally, Mak et al. (2013) and Schmidt et al. (2014) find support for strategic considerations as a potential explanation for voluntary payments.

3. Methods

3.1. Survey design

While the observational level data in Regner and Barria (2009) illustrates the willingness of Magnatune customers to pay more than necessary,[6] it is not suitable for distinguishing between their specific motivations to pay more than they have to. A logical further step of analysis would address the actual drivers of customers' behaviour more directly. Therefore, we designed a questionnaire to complement the analysis of the purchase data. As illustrated

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[6] Regner and Barria (2009) study all 14,367 album purchases from the actual start of Magnatune's service in September 2003 until January 2005. Only 14.5% of all purchases were at the required minimum of $5, the majority of purchases were at the recommended $8 and the average price of all purchases was $8.20. An analysis of the payment patterns of customers who had more than 15 transactions provides insight about the tendency of customers to base their decision upon a consistent underlying motivation or not. Three different groups can be distinguished: Customers who essentially paid i) the minimum of $5, ii) the default/recommended price of $8, and iii) significantly more than the default/recommended price on average.

in the survey literature (see e.g. Bertrand and Mullainathan, 2001), the challenge is to obtain unbiased responses to the survey questions. Among the factors potentially causing bias in survey responses, social desirability may be the most relevant in our context. Respondents may want to look good in front of the interviewer, and their answers may be biased towards those options that respondents expect the interviewer to consider correct. Our online survey keeps the interviewer effect at a minimum compared to surveys conducted face-to-face or via telephone. But participants may still want to make a favourable impression on the interviewing entity (or themselves), and – if they know or assume the purpose of the survey – they may answer what they believe is expected from them. Naturally, these issues are particularly relevant for a survey if the goal is to ask about voluntary payments and to elicit underlying motivations for payment behaviour. While we wanted to find out as much as possible about the motifs of the three main customer types, we could not ask this in a direct manner. Hence, we decided to let survey participants write freely about their online music and Magnatune experience, hoping to gain insights about their motivation. After this freewheeling part we asked participants to tell us how much they generally pay for a Magnatune album (less/around/above the recommended price of $8), followed by a set of background questions. A separate data set containing the purchases of the invited customers allowed us to verify the survey responses with respect to their payment behaviour.

Only Magnatune customers with at least 10 previous purchases received an email invitation to the online survey which took place in April 2007.[7] Participants in the survey remained anonymous. Completion of the questionnaire was rewarded with an $8 Magnatune gift card. We received 231 responses out of 509 invitations sent. Four participants quit during the first

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[7] We focused on frequent customers, because they tend to have an established consumption experience. Regner and Barria (2009) found that single customers paid more than repeated customers, but did not find a decreasing effect of transactions on payments among repeated customers.

question. The survey consisted of three parts: i) open-ended questions about participants'
online music experience, ii) a question about their actual payment behaviour at Magnatune
plus follow-up questions, and iii) background questions about socio-demographics and
dispositions. The complete question texts of the survey can be found in Table 1.

Variable	Question
TABLE 1: Survey questions/variables	
--	1: Please list your reasons for shopping music online.
--	2: Do you use other online music sites? If so, in what ways does Magnatune differ in your opinion?
--	3: What do you think are your benefits when purchasing a piece of music at Magnatune? Please describe why this is important to you.
--	4: Would you say that you generally pay rather less/around/above the recommended price?
--	5: What factors led to your decision to pay less/around/above the recommended price?
--	6: If you made a list of all potential reasons why people might make a payment above the minimum or even above the recommended price, what reasons do you think would be on such a list?
--	7: What do you think is the approximate average payment for a downloadable album at Magnatune (in USD)?
Age	What is your age (19 years or younger, 20-29, 30-39, 40-49, 50 years or older)?
Country	In which country do you live?
Gender	What is your gender?
Income	In what range is your monthly personal income (less than $500, $500-$999, $1000-$1999, $2000-$2999, $3000-$3999, $4000-$4999, $5000-$5999 or more than $6000)?
Education	What is your educational background (e.g. high school diploma, university degree)?
ActiveMusic	Do you actively make music, for instance, as a member of a band?
SocialImage	Please rank the following statement: "It is important to me what others think of me."
Donations	Are you donating to charities and, if so, how often ("Never", "occasionally" or

	“frequently”)?
PositiveReciprocity	If someone does something that is beneficial to you, would you be prepared to return a favour, even when this was not agreed upon in advance?
SocialNorms	Do you tend to consider strongly what others believe is appropriate when you make a decision?
NegativeReciprocity	If somebody puts me in a difficult position, I will do the same to him/her. Would this apply to you?

The answers to the open-ended questions were encoded by a research assistant who was naïve with respect to the goal of this study. In a first step of our analysis, the answers to each question were clustered into topical groups. If an answer contained an aspect that was not covered by an already existing group, then a new group was created. This procedure ensured a neutral approach to the various motivations voiced by the participants. Appendix Table 1 provides the result of the clustering for question 3. Naturally, several groups could have been mentioned in a participant’s answer text, resulting in more total answers for the groups than there were participants.

In a second step, the various groups were assessed by the research assistant. Based on their contextual proximity higher-level categories were formed. The categories resulting from the analysis are shown in Table 2. A category counts as mentioned by the participant if he or she wrote about at least one of the category’s groups. The most frequent response was support of the artist (category 1). A number of answers mentioned reasons specific to Magnatune: its idea/business model (4), its particular music collection (7) and technical aspects excluding DRM reasons (2). Another recurring theme customers mentioned was the so-called “try before buy” concept, allowing website visitors to become familiar with an album via the online stream before making a purchase decision (3). The fact that Magnatune does not implement any Digital Rights Management was another significant topic in the response of

several participants (8). Finally, some customers referred to online music in general (6) and
to guilt/moral obligation (5).

The purpose of the first three questions of the online survey was to give participants an
opportunity to write freely about what they believe matters in online music. These questions
were not mutually exclusive. The first was very general ("reasons for shopping music
online"), the second focused on Magnatune ("in what ways does Magnatune differ from other
music sites?") and the third asked was about specific benefits when purchasing at
Magnatune. Naturally, answers were not given in a mutually exclusive way either. Several
participants referred to aspects already written in a previous answer. The idea of this
approach was to cover all aspects that could possibly matter to customers and to avoid any
bias due to ex ante assumptions of participants about the purpose of the survey. No
significant correlations were found between categories within and across questions. A
principal component analysis did not indicate that a further clustering of variables would be
advisable. The remaining analysis focused on question 3, i.e. the specific benefits at
Magnatune.

TABLE 2: Clustering of groups into categories (based on question 3)					
Category	**Category code**	**Groups included**	**No. of arguments**	**In % (of 227)**	**Average payment**
Support of the artist	1	1, 23	104	45.81	8.18
Magnatune specific – technical	2	2, 6, 13, 14, 16, 18, 19, 20, 24, 27	105	46.26	8.02
"Try before buy"	3	3	51	22.47	8.52
Magnatune specific - idea/business	4	4, 8, 10, 17	97	42.73	8.21
Guilt	5	21, 25	5	2.20	9.46

Online music general	6	15, 22, 26	21	9.25	7.83
Magnatune specific - music	7	5, 11	70	30.84	8.10
No DRM	8	7, 9, 12	69	30.40	8.06
TOTAL	-	-	522	-	8.05

Question 4 asked participants to indicate whether they generally pay less, around or above the recommended price of $8. It seems unlikely participants realised during the first three questions that the survey targeted their payment behaviour. Hence, the first three questions can be regarded as rather implicit and probably best suited to elicit the true motivations or underlying reasons for their payment behaviour. Question 4 and the following questions refer more or less directly to payment, though. These questions have a more explicit character and give us an indication about the participants' ex post reasoning in support of their payment decision. The remaining multiple choice questions aimed at collecting some background information and general dispositions of the participants. Answers to these background questions were not compulsory. The question most often skipped referred to personal income (22 times).

3.2. Behavioural predictions

The survey responses of frequent Magnatune customers enable us to study their underlying motivations for paying more than necessary which complements existing research that is limited to the observational level. On the other hand, we are not in a position to test the predictions of specific models for social preferences, say inequity aversion, which is not the goal of our paper anyway. Instead, we use what participants communicate in part 1 of the

survey, and the data on their background / general dispositions in part 3 to proxy the potential motivations we identified.

We have two variables to proxy for reciprocity concerns. The category "try before buy" in the freely written part 1 of the survey indicates that the customer acknowledges the kind approach of Magnatune. Moreover, the score of the question about positive reciprocity in part provides us with the general disposition of a person to reciprocate in a positive way. Fairness as a motivation is measured by the "support of the artist" category. Altruism as a motivation is proxied by a person's general tendency to give (the frequency of donating) and his proximity to the music profession (the dummy for actively making music). Guilt as a motivation is measured by the respective category in the survey. The score for the statement "It is important to me what others think of me" is used to assess the role social-image concerns may play in a customer's decision. The question about the consideration of what others believe is appropriate is used as an indicator of a customer's inclination to follow social norms, and we expect this variable to be correlated with payments around the recommended price.

We do not expect the various motivations to be mutually exclusive, that is, we do not intend to test them against each other. All may play a role in driving customers' behaviour, and the analysis aims to find out which of these motivations are relevant in the context we study.

4. Results

4.1. Analysis

We start our analysis with participants' answers regarding their own payment. Of the survey participants, 13.66% said they generally paid less, 60.35% said they paid around, and 25.99%

said they usually paid above the recommended price. Since we also have the purchase data of survey participants,[8] we can double-check on an individual level whether their responses correspond to their actual purchase history at Magnatune. Figure 1 shows the distributions of the actual average payments of participants, split into the three respective categories.
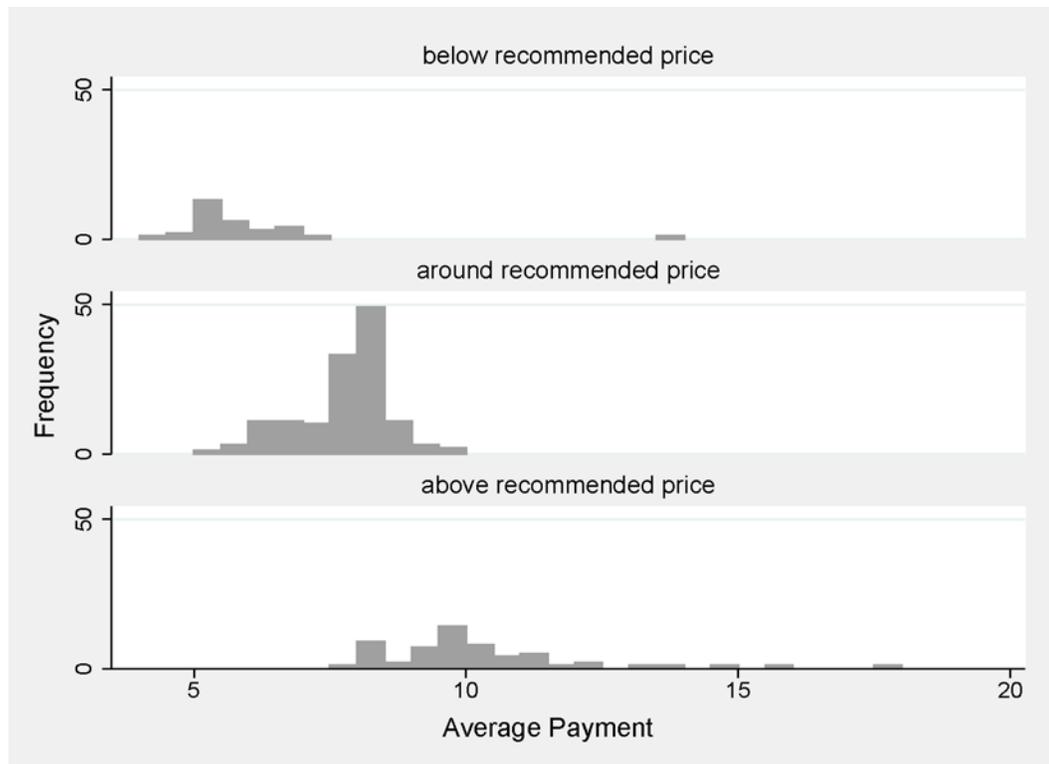
Figure 1: Distributions of the actual average payments by payment type

(top/middle/bottom: below/around/above recommended price)

Given that the survey was run in 2007 and purchases were possible from 2003 onwards, participants may not have perfectly remembered their purchasing record. In order to

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[8] Purchase data is available for all but four survey participants. Customers at Magnatune can also license music for commercial reasons, but the PWYW model does not apply to music licenses. Four survey participants made less than the necessary ten purchases after the correction for license purchases.

determine whether a response contains a bias, we count average payments of up to $7 as in line with a reply of "less", average payments in the range of $7 to $9 as in line with "around", and average payments of more than $9 as in line with "above". The results of this within-participant verification of the survey responses with respect to payment behaviour are the following. Out of the 134/58 participants who replied around/above, 23/14 or 17.16%/24.13% (aggregate 19.27%) biased the answer about their payment behaviour upwards, intentionally or not. In contrast, out of the 31/134 participants who replied less/around, 1/5 or a total of 3.64% biased their answer downwards (see Appendix Table 2 for an overview). While the incentive for an upward bias is clear, there does not seem to be a motivation for the downward bias of some participants. They possibly did not remember correctly. Taking the fraction of downward bias as a baseline for measurement error, about 15% remains for the fraction of participants who may have intentionally biased the response regarding their payment behaviour in a self-serving fashion.

We control for this *individual response bias* in the following regression analysis by re-coding participants' responses regarding their payment (OwnPayment) with the correct value according to their transactions. This results in 53 survey participants actually paying below, 120 around and 50 paying above the recommended price. Alternatively, only the 180 survey responses in line with actual payments could be used for the analysis. The two approaches do not differ qualitatively in the results they produce. Figure 2 contrasts the self-categorised payment types based on the survey responses with the payment types based on the actual purchase data of customers.
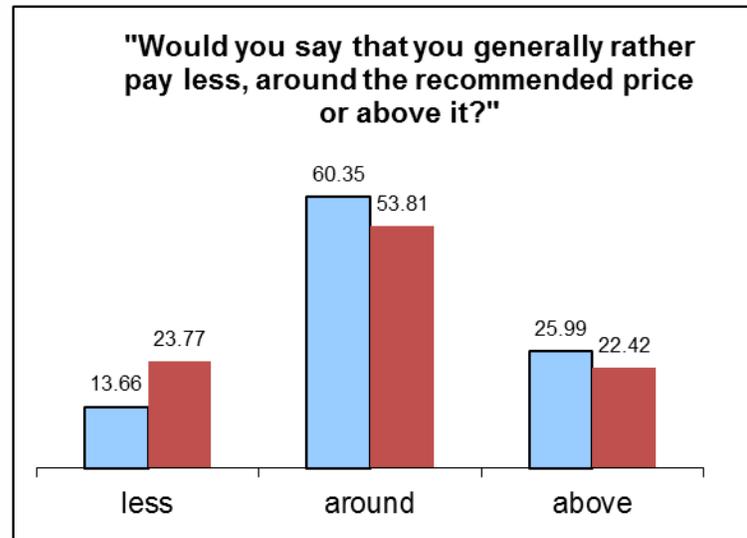
Figure 2: Self-categorised (left) and actual payment (right) types of customers

Out of the 509 frequent Magnatune customers invited to take part, 278 did not reply and four quit the survey during the first question. For most of the survey invitees (227 survey participants and 282 non-respondents) actual payment data is available.[9] This data includes all purchases (with payment and date) of the survey invitees and information about the country of the invitee. Since the decision to respond and take part in the survey may depend on factors not independent of the actual survey responses, the available data for all invitees allows us to control for potential *sample selection bias*. For instance, customers who are more generous may also be more inclined to respond to the survey invitation, which is in fact the case (survey participants: $M = 8.05$, non-respondents: $M = 7.64$, ranksum test: $p = 0.05$). Hence, we compute the average payment of the (at least ten) purchases, the total amount of purchases (both at the time of the survey), and dummies for the most popular countries in order to address the issue of selection. As mentioned in note 6, payment behaviour among

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[9] Four frequent customers bought mostly licenses for commercial use and thus payment data for album downloads is not available (see also n. 8).

repeated Magnatune customers is independent of the number of purchases, and there is no indication of a selection effect at this level.

Column I of Table 2 shows regression results for an ordered probit model with the self-categorised but bias-corrected payment type of participants as the dependent variable (*PaymentType* being less/around/above the recommended price). The second specification (OLS) in column II generalises from the categorisation into types and uses the actual average payment (*AvgPayment*) as dependent variable. We then present a sample selection model (Heckman two-step procedure) in column III. The dependent variable is the actual average payment (*AvgPayment*) and the regression model is OLS. The selection equation features the actual average payment, the total purchases and the country dummies to explain the decision to take part in the survey.

In all regressions, explanatory variables are the category entries for question 3 of part 1 ("benefits when purchasing a piece of music at Magnatune"), the scores of the questions about positive reciprocity, social norms, social-image concerns, whether participants "actively make music" and the extent of "donations". We add a quadratic term of the SocialNorms score since we expect an inverse U-shaped relationship between SocialNorms and payments. Control variables include age, country, gender, income and education.

TABLE 2: Estimation results			
Dependant variable	I: PaymentType	II: AvgPayment	III: AvgPayment with selection model

Explanatory variable	Coefficient	St. error	Coefficient	St. error	Coefficient	St. error
Category SupportArtist	.1477	.1799	.2404	.2707	.2335	.2377
Category MagnatuneTech	-.199	.18	-.0459	.2609	-.0385	.2396
Category TryBeforeBuy	.7051	.2065 ***	.8578	.2974 ***	.7226	.2674 ***
Category MagnatuneIdea	.1781	.1769	.3214	.26	.1661	.2352
Category Guilt	1.197	.6223 **	1.678	.8521 **	1.552	.7849 **
Category OnlineMusic	-.0753	.3143	-.5266	.4569	-.4092	.4109
Category MagnatuneMusic	.1237	.1976	.1841	.2861	.1581	.2588
Category NoDRM	-.0636	.1986	-.093	.2903	.0029	.2622
Age_20to29	.2703	.611	-.3318	.8921	-.8446	.786
Age_30to39	-.5529	.6238	-1.137	.9075	-1.554	.8026 *
Age_40to49	-.6896	.6341	-.9519	.9178	-1.341	.8124 *
Age_50+	-.3577	.6125	-.9516	.8901	-1.373	.7909 *
USA	-.0016	.2131	.1609	.3162	--	--
Japan	-.307	.5093	.1345	.7544	--	--
Canada	-.0727	.2741	-.0935	.3974	--	--
Germany	-.1183	.3309	-.494	.4884	--	--
UK	-.1699	.2508	.294	.3657	--	--
France	-1.058	.3975	-.9499	.566 *	--	--
Female	.2104	.3276	.7219	.4833	.8625	.4315
Income_less500	-.7532	.4162 *	-.9229	.5773	-.9492	.5454 *
Income_1000to1999	-1.552	.6001 ***	-1.71	.8432 **	-1.291	.7734 *
Income_2000to2999	.0378	.3212	-.3005	.4426	-.2249	.4298
Income_3000to3999	.0123	.3103	.0354	.4106	.1384	.4104
Income_4000to4999	.1225	.314	.9276	.4689	-.0537	.4181*
Income_5000to6000	.8037	.3543 **	-.0362	.5167	.7975	.4666
Income_6000+	.6979	.2995 **	.8381	.4011 **	.8618	.3971 **
Education (uni degree)	.0583	.351	-.0843	.3945	.4327	.4645
Education (PhD)	-.1411	.2706	-.1292	.1808	.0243	.3549
Donations (never)	.2297	.3255	.136	.4742	.2445	.4191
Donations (frequently)	.5257	.1929 ***	.571	.2783 **	.6149	.2559 **

ActivelyMakingMusic	.2265	.2166	.1392	.3226	.0145	.2876
SocialImage	-.673	.5647	-.22	.1447	-1.194	.7537
PositiveReciprocity	-.005	.086	-.0037	.1273	.0116	.1103
SocialNorms	.6281	.2596 **	1.397	.3805 ***	1.192	.3449 ***
SocialNorms_squared	-.0865	.0321 ***	-.175	.0468 ***	-.1562	.0427 ***
Constant	-.0745	.6364	6.378	.9106 ***	7.385	.9235 ***

SELECTION EQUATION (N = 501): participated in survey yes (N=223), no (N=278)						
Total Purchases	--		--		.0237	.0074 ***
Average Payment	--		--		.0834	.0351 **
USA	--		--		.587	.1508 ***
Japan	--		--		.8887	.4011 **
Canada	--		--		1.221	.2892 ***
Germany	--		--		.5743	.2481 **
UK	--		--		1.104	.2261 ***
France	--		--		.7767	.3215 **
Constant	--		--		-1.842	.3288 ***
Rho	--		--		-.57	
SIGNIFICANCE LEVELS: *** = 1%, ** = 5%, * = 10%						

Results of the "baseline" ordered probit and OLS models (columns I and II) are similar.

The coefficient of the category TryBeforeBuy is positive and highly significant (I and II: 1%

level). The coefficient of the category Guilt is also positive and significant ((I and II: 5%

level). None of the other categories seem to explain payments at a significant level. The

coefficient of the linear/quadratic term of SocialNorms is positive/negative, and both are

highly significant (I: 5% level, II: 1% level). The coefficient of the tendency to donate

frequently is also positive and significant (at the 1% level in I, at the 5% level in II).

Compared to the OLS model (column II), controlling for the sample selection bias in

specification III reduces coefficients of the categories TryBeforeBuy, Guilt and SocialNorms

but does not change the results in a qualitative way.[10] In all specifications coefficients of high

income regions tend to be significantly positive (at least at the 5% level). In additional

specifications, interaction terms were used for the category SupportArtist (with

ActivelyMakingMusic, frequent donations) and the category TryBeforeBuy (with

PositiveReciprocity), but none of them was significant. The reported results are robust in

reduced regressions specifications where in a stepwise process regressors with insignificant

coefficients were eliminated.

While participants were asked to write freely about their customer experience at Magnatune

in a rather open style, they were confronted with direct questions about their payment

decision from question 4 onwards. In question 5, participants were asked to write about the

factors that led to their payment behaviour depending on what they answered in the previous

question (decision to pay less/around/above the recommended price). Appendix Tables 3 to 5

show the clustered responses of participants. As in the previous qualitative analysis, any

participant could mention several arguments in the text response, meaning that the total

number of arguments could potentially have been greater than the actual number of

participants of the type in question.

Naturally, self-interest and a limited budget are given as reasons for paying less than the

recommended price. Some participants apply a volume discount to themselves paying less

when buying several albums.

When participants are explicitly asked to give their reasons for paying more than necessary,

fairness concerns are the dominant factor mentioned (two thirds of all participants paying

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[10] The error terms of the selection and the payment equation are significantly correlated, confirming our approach to control for sample selection bias. Moreover, the variables used in the selection equation appear to have a significant effect on the decision to take part in the survey.

around or above \$8). Around 40% wrote that the music at Magnatune affected their decision to pay more than they had to. Around a quarter of participants who paid around the recommended price stated that they did so to conform to a social norm. Only very few participants who paid around \$8 mentioned a sense of guilt or the "try before buy" feature as the factor that led to their decision. None of the participants who paid more than \$8 explicitly referred to a sense of guilt or reciprocity. They justified their generous decisions with fairness arguments when asked explicitly; but in view of the analysis of the first three questions, fairness concerns do not explain their motivation.

Appendix Table 6 shows what participants replied to question 6 of the survey. Interestingly, there is again a discrepancy between what participants believe are potential reasons why customers may make a generous payment and the actual motivation stated in reply to questions 1-3. Two thirds of participants mentioned fairness to the artist, while "try before buy" is only mentioned twice as a potential reason why customers may make a generous payment. It appears that being reciprocal drives behaviour, but it is not anticipated by customers that it does.

4.2. Discussion

After controlling for age, country, gender, income and education of the survey participants, we find support for reciprocity[11] as a motivation for generous voluntary payments. In all regression specifications the coefficient for the category TryBeforeBuy is significant at least at the 5% level. Based on its coefficient, guilt seems to have a strong effect on behaviour in

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[11] The second reciprocity proxy, a measure of general dispositions used in part 3 of the survey, is not statistically significant. This abstract measure is apparently not sufficient on its own to explain behaviour in a specific context. An interaction term is not significant. A combined reciprocity measure consisting of the two proxies in equal parts is highly significant.

the context we analyse, but it is only marginally significant and applies only to a few

participants. Only five participants mentioned it in the survey (in comparison, 51 wrote about

TryBeforeBuy), hence this finding should be treated with caution. We also find strong

support for the impact of social norms on the payment behaviour at Magnatune. Payments

around the recommended price of $8 are more likely by customers who are more inclined to

follow what others believe is appropriate. On the other hand, generous payments are less

likely by customers who have a tendency to follow social norms. We also find a correlation

between the frequency of donating to charities and generous payments, a result that may be

attributed to altruism.

We do not find support for fairness concerns as a driver of voluntary payments. Support of

the artist is the category mentioned second most frequently (104 participants or almost half of

them); but apparently it does not make customers more generous. Interestingly, with regard

to themselves and when asked about people in general, participants mention fairness

concerns and supporting the artist as the most common reasons to pay more than necessary.

There seems to be a discrepancy between the ex post reasoning for generous decisions and

the actual motivations as customers expect fairness concerns to lead to generous payments,

although there is no evidence in the data that these drive behaviour. In contrast, the

motivations that seem to drive behaviour (reciprocity for payments above and conformity for

payments around the recommended price) are attributed only a minor role by customers

when asked directly. It seems they are actually unaware of their own motivation.

Social-image concerns have been shown to be a significant determinant of donations, see e.g.

Ariely et al. (2009), DellaVigna et al. (2012). Our results do not indicate that social-image

concerns are a significant motivation for voluntary payments in the analysed context of

online consumption. This complements the findings of related studies (Gneezy et al., 2012; Machado and Sinha, 2012; Kim et al., 2013) on PWYW. They experimentally vary public exposure of the payment (in a restaurant/snack/cafeteria setting) and find no positive effect on its size, while we do not find an effect of participants' disposition to social reputation on paying more than necessary.

Magnatune's PWYW model employs two additional design features: a minimum price and a price recommendation. Chen et al. (2009) conclude that both may have a positive effect on revenue. The price recommendation of $8 serves as a reminder what should be paid, and customers who strongly consider what others believe is appropriate tend to follow this recommendation. Paying around the recommended price is characteristic of the most prominent payment type, suggesting that it is in fact a useful feature for a PWYW model. It attracts customers who look for a reference, although it is not clear whether there are more customers who pay $8 and would otherwise have paid less than customers who use the reference as an excuse to pay only $8 and would otherwise have paid more. The fact that the customer types paying "around" and "above" the recommended price are different in their dispositions may suggest that a price recommendation does not necessarily cannibalise would-be generous customers. Nevertheless, the results from Johnson and Cui (2013) indicate that it is not trivial to set reference prices in a way that they increase overall revenue. Likewise, requiring a payment of at least $5 keeps free riders out, but the minimum may be set too high (turning away potential customers who would be willing to pay slightly less) or too low (quasi-free riders who would be willing to pay slightly more).

5. Conclusions

The voluntary payment-based business model of the online music label/store Magnatune features a minimum price of $5 and a price recommendation of $8 for a music album.[12] We relate survey responses of frequent Magnatune customers to their purchase data in order to analyse their payment behaviour. This real-life data from a consumption context enables us to go beyond the observational level of purchases and gain insights about the underlying motivations driving pro-social behaviour, particularly in a consumption context.

Our analysis suggests that reciprocity is a substantial motivation for generous payment behaviour. Other potential drivers have low explanatory power (guilt and "warm glow" altruism) or none (fairness towards the artist, social-image concerns). We also find evidence for the effect of conformity to social norms as participants who usually pay an amount around the recommended price are more likely to have a tendency to follow what others believe is appropriate.

These findings complement the existing literature on the underlying motivations in PWYW contexts. All existing studies focus on a sub-set of potential motivations for voluntary payments and ours is no exception as we cannot test for self-image concerns in our design. However, most studies, besides the laboratory experiment in Schmidt et al. (2014), cannot test for the relevance of reciprocity concerns in their setup and findings in support of norm conformity have so far been established only in the lab.

These insights about the specific drivers of pro-social behaviour should be useful for a better understanding of the scope of PWYW models, when they work, and why. A PWYW model can be interpreted as giving customers an opportunity to reciprocate. Customers receive a product or service and are free to decide the price they want to pay for it. Their payment decision tends to be affected by their perception of the quality of the product/service and of

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[12] It is essentially a modified pay-what-you-want (PWYW) model.

the offer. In the case of Magnatune this is, for instance, the comprehensive pre-purchase access allowing customers to make an informed purchase decision. Our research indicates that it is in fact reciprocity that induces generous payments. Customers who acknowledge the specific kind behaviour of Magnatune, the "try before buy" feature, tend to pay more. These results suggest that it is important for the success of a PWYW model to attract a substantial part of reciprocal customers and to have a convincing product/service that appeals to them. They also lend support to the "Personality-Relatedness and Reciprocity" framework of Kaltcheva and Parasuraman (2009), which analyses retailer-consumer interactions. This proposes that consumers place importance on the retailer's personality (values and culture) and the level of reciprocity in the retailer-consumer interaction. Our analysis suggests that a substantial number of customers respond in a reciprocal way to Magnatune's kind, customer-oriented approach. The other dimension, personality-relatedness, seems to be at a generally high level at Magnatune as their artists are relatively unknown (no unapproachable superstars), and the label itself has a positive image (compared to big labels). While the relevance of personality-relatedness cannot be tested with our data, it seems reasonable to assume that its high level contributes to the success of Magnatune's model. The conditions at Magnatune are certainly specific as the market for music by relatively unknown artists may be especially suited to attract reciprocal customers and appeal to their needs. However, it is not unrealistic to think of similar settings where PWYW models should thrive as well.

To conclude, the success of voluntary payment-based models, documented in a series of studies, is intriguing and it is important to improve our understanding of PWYW. Various underlying motivations have been identified as a determinant for voluntary payments. Based

on this evidence it appears plausible that a combination of fairness, reciprocal concerns, self-image concerns, norm conformity and strategic concerns drives behaviour in PWYW settings. Given these insights, design features that target the identified underlying motivations should be useful in order to support and stabilise the PWYW model. For instance, price references like a price recommendation, seemingly successful at Magnatune, can make use of consumers' norm conformity if set at the right level. Specific, customer-oriented investments in product/service quality promise to be beneficial in order to establish a relationship to consumers. Another feature, combining the payment with a donation to charity, has been shown to work well by Gneezy et al. (2010) and may be particularly suitable for environments with a high visibility of the act of the donation, that is, when social-image concerns are known to be relevant. In future research it should be exciting to investigate which features appeal best to the underlying motivations in the context of PWYW and how they interact with each other.

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Appendix

<table>
<tr><td colspan="3">TABLE 1: Clustering of text answers into groups</td></tr>
<tr><td colspan="3">*Question 3: What do you think are your benefits when purchasing a piece of music at Magnatune? Please describe why this is important to you*</td></tr>
<tr><td>**Clustered group**</td><td>**No. of arguments**</td><td>**In %**</td></tr>
<tr><td>(1) Fairness to/support of the artist</td><td>101</td><td>15.63</td></tr>
<tr><td>(2) High quality downloads (lossless format)</td><td>55</td><td>8.51</td></tr>
<tr><td>(3) "Listen before buy" - better decision possible</td><td>53</td><td>8.20</td></tr>
<tr><td>(4) Supporting an alternative way of business (no RIAA)</td><td>51</td><td>7.89</td></tr>
<tr><td>(5) Good/alternative selection</td><td>49</td><td>7.59</td></tr>
<tr><td>(6) Choice of format and bit rate</td><td>47</td><td>7.28</td></tr>
<tr><td>(7) No DRM</td><td>47</td><td>7.28</td></tr>
<tr><td>(8) Price model (pay what it is worth to me)</td><td>38</td><td>5.88</td></tr>
<tr><td>(9) Freedom to use/play the music everywhere and anytime</td><td>32</td><td>4.95</td></tr>
<tr><td>(10) Fair price / bargain</td><td>27</td><td>4.18</td></tr>
<tr><td>(11) Possibility of discovering new talents</td><td>27</td><td>4.18</td></tr>
<tr><td>(12) Open sharing policy (with friends/family)</td><td>26</td><td>4.02</td></tr>
<tr><td>(13) Ease of use (the website/system)</td><td>23</td><td>3.56</td></tr>
<tr><td>(14) Possibility of multiple download</td><td>16</td><td>2.48</td></tr>
<tr><td>(15) Convenience of downloading (not leaving home, immediately available, etc.)</td><td>12</td><td>1.86</td></tr>
<tr><td>(16) Possibility of reformatting</td><td>6</td><td>0.93</td></tr>
<tr><td>(17) More about music than marketing</td><td>5</td><td>0.77</td></tr>
<tr><td>(18) Speed of download</td><td>5</td><td>0.77</td></tr>
<tr><td>(19) Usable on Linux</td><td>5</td><td>0.77</td></tr>
<tr><td>(20) High quality customer service</td><td>4</td><td>0.62</td></tr>
<tr><td>(21) Knowledge of having made a legal(ly) purchase(d) / Knowledge of legal purchase</td><td>4</td><td>0.62</td></tr>
<tr><td>(22) Convenience of (having) digital format (no ripping, storage, etc.)</td><td>3</td><td>0.46</td></tr>
<tr><td>(23) Feeling (of being) close to the artist</td><td>3</td><td>0.46</td></tr>
<tr><td>(24) Downloading the cover</td><td>2</td><td>0.31</td></tr>
<tr><td>(25) Moral obligation to pay for music / being pushed to pay</td><td>2</td><td>0.31</td></tr>
<tr><td>(26) No need of jewel cases (green idea, less storage space)</td><td>2</td><td>0.31</td></tr>
<tr><td>(27) Offer of burning CDs</td><td>1</td><td>0.15</td></tr>
</table>

TOTAL		646	100

TABLE 2: Comparison of participants' survey responses to their actual average payments

Survey response to "Own payment less/around/above recommended price ($8)"	No. of participants with verifiable payment data	Survey response biased upwards	Survey response in line with payments	Survey response biased downwards
Less	31	n/a	30	1
Around	134	23	106	5
Above	58	14	44	n/a
TOTAL	223	37	180	6

TABLE 3: Answers to question 5a

Question 5a: What factors led to your decision to pay less than the recommended price?

Clustered group	No. of arguments	In %
Self-interest / excuses for self-interest	16	50
Budget restriction	12	37.5
Volume discount	5	15.6
TOTAL	**33**	

TABLE 4: Answers to question 5b

Question 5b: What factors led to your decision to pay around the recommended price?

Clustered group	No. of arguments	In %

Fairness to/support of the artist	88	66.4
Magnatune specific - music	27	42.2
Conformity/social norms	27	27.6
"Still good price"	19	11.6
Budget flexibility	19	8.2
Magnatune specific - idea/business	11	6.0
Self-interest / excuses for self-interest	10	6.0
Experience good aspects	9	5.6
Volume discount	6	4.3
Guilt	5	3.9
"Try before buy"	2	0.9
Magnatune specific - technical	1	3.9
No DRM	1	3.9
TOTAL	**225**	

TABLE 5: Answers to question 5c

Question 5c: What factors led to your decision to pay above the recommended price?		
Clustered group	**No. of arguments**	**In %**
Fairness to/support of the artist	42	66.7
Magnatune specific - music	28	44.4
Magnatune specific - idea/business	19	30.2
"Still good price"	14	22.2
Budget flexibility	7	11.1
No DRM	4	6.3
Magnatune specific - technical	1	1.6
TOTAL	**115**	

TABLE 6: Answers to question 6

Question 6: If you made a list of all potential reasons why people might make a payment above the minimum or even above the recommended price, what do you think would be on such a list?

Clustered group	No. of arguments	In %
Fairness to/support of the artist	154	66.4
Magnatune specific - music	98	42.2
Magnatune specific - idea/business	64	27.6
"Feel good"/pride	27	11.6
Budget flexibility	19	8.2
Guilt	14	6.0
"Still good price"	14	6.0
Magnatune specific - technical	13	5.6
No DRM	10	4.3
Conformity/social norms	9	3.9
"Try before buy"	2	0.9
TOTAL	**424**	