

# **Willingness to Pay:**

## **A Technique for Helping Programs Balance the Need for Sustainability with Social Mission**

**Jim Foreit/FRONTIERS**



**ACT I:**

**What are we  
talking about?**

# Two questions in setting prices:

1. How much *should* we charge?
2. How much *can* we charge?

# 1. How much *should* we charge?



**Revenue and sustainability  
objectives**

## 2. How much *can* we charge?



**Willingness to Pay (WTP)  
surveys**

**WTP surveys ask users and/or potential users how much they would pay for a given product or service**

# *Why do WTP?*



**Improves program manager's ability to predict client reactions to prices beyond the data usually available**

# *What WTP tells us*

- **Impact of price increase on client volume**
- **Impact of price increase on client characteristics**
- **Impact of price increase on revenue**



# *Why do WTP?*



The WTP methodology is *quick, inexpensive, and easy to apply.*

# ***WTP surveys: countries***

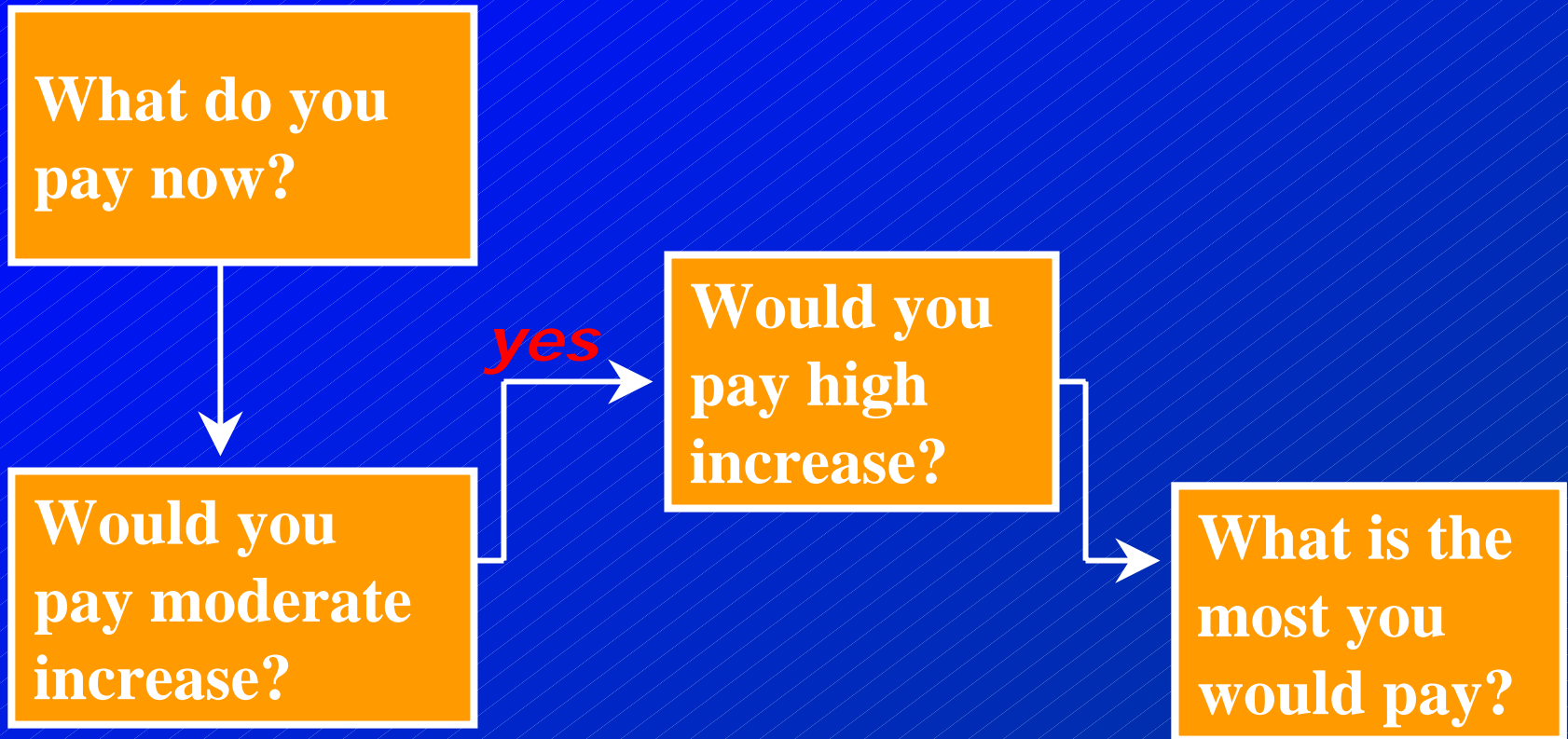
- **Bangladesh**
- **Brazil**
- **Ecuador**
- **Egypt**
- **El Salvador**
- **Ghana**
- **Guatemala**
- **Honduras**
- **India**
- **Kenya**
- **Madagascar**
- **Mali**
- **Pakistan**
- **Philippines**
- **Yemen**



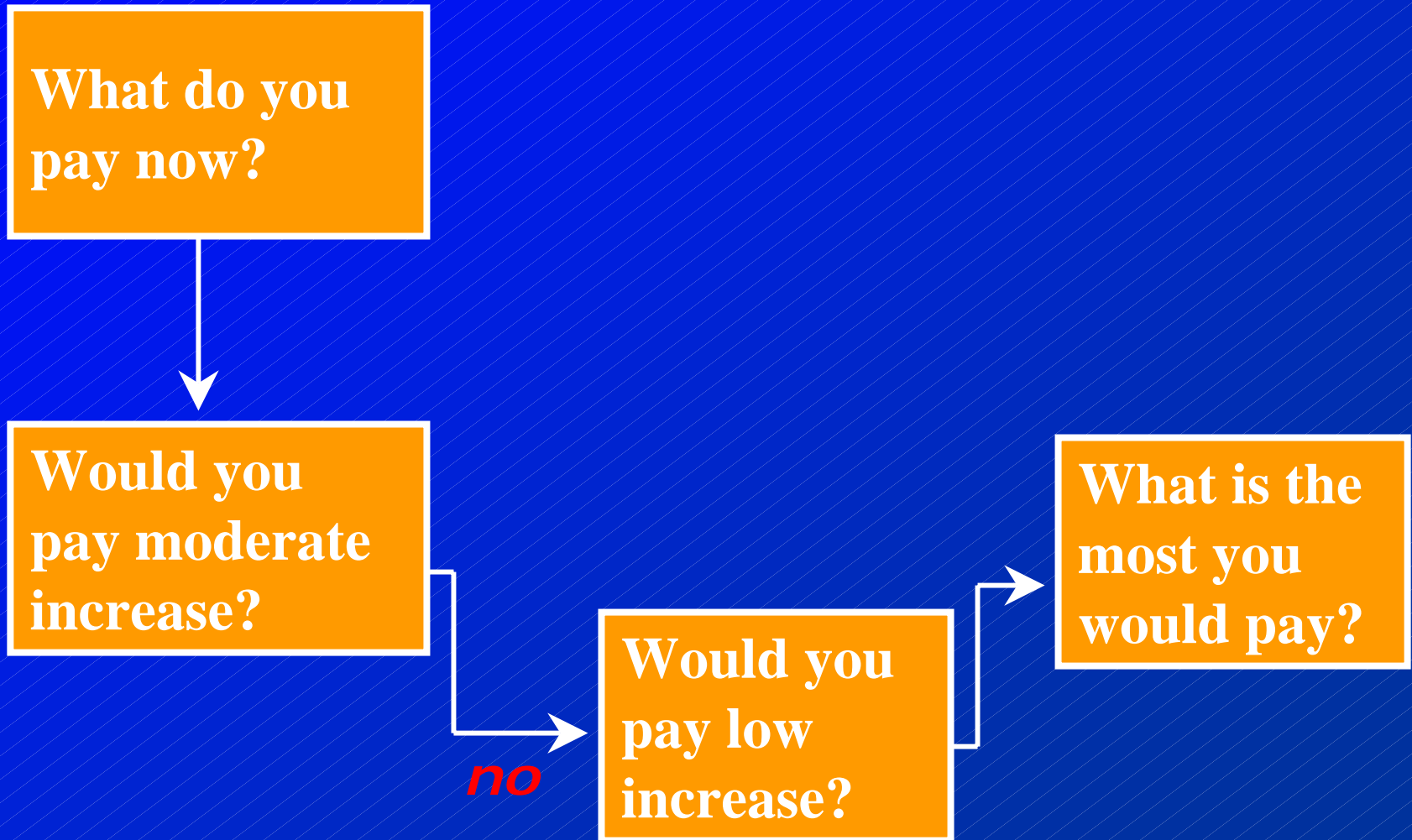
**ACT II:**

**How do we do it?**

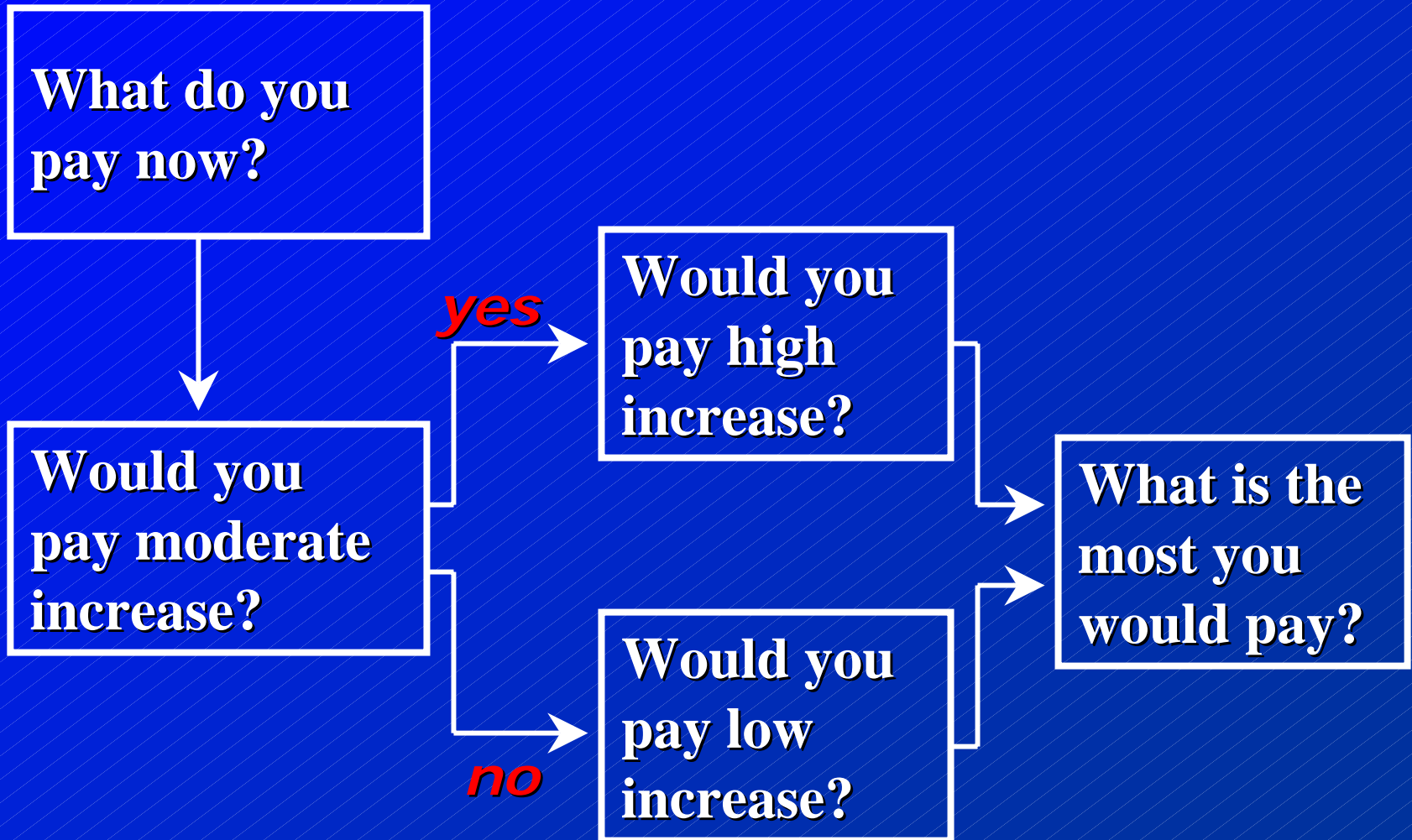
# Structure of WTP questionnaire



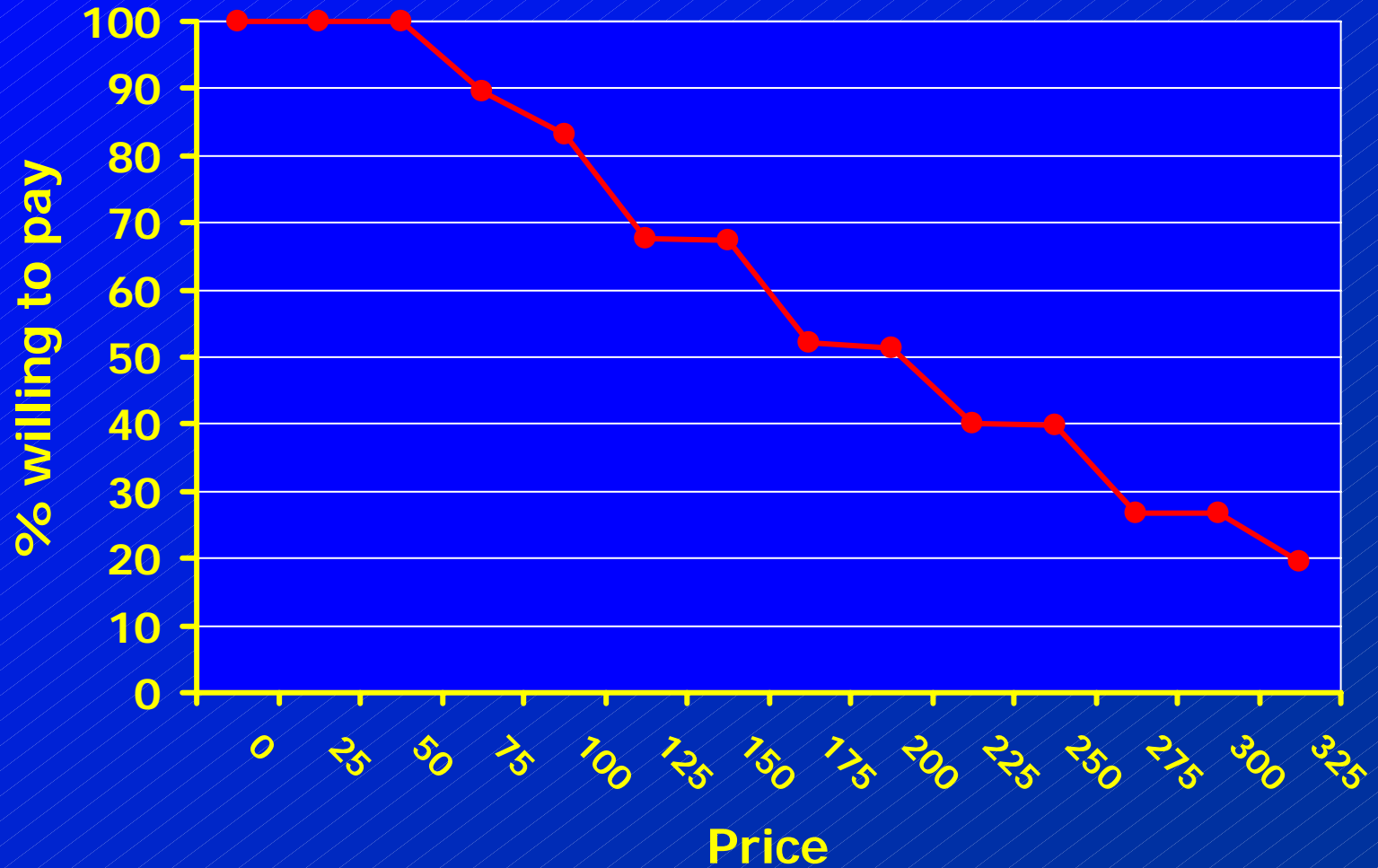
# Structure of WTP questionnaire

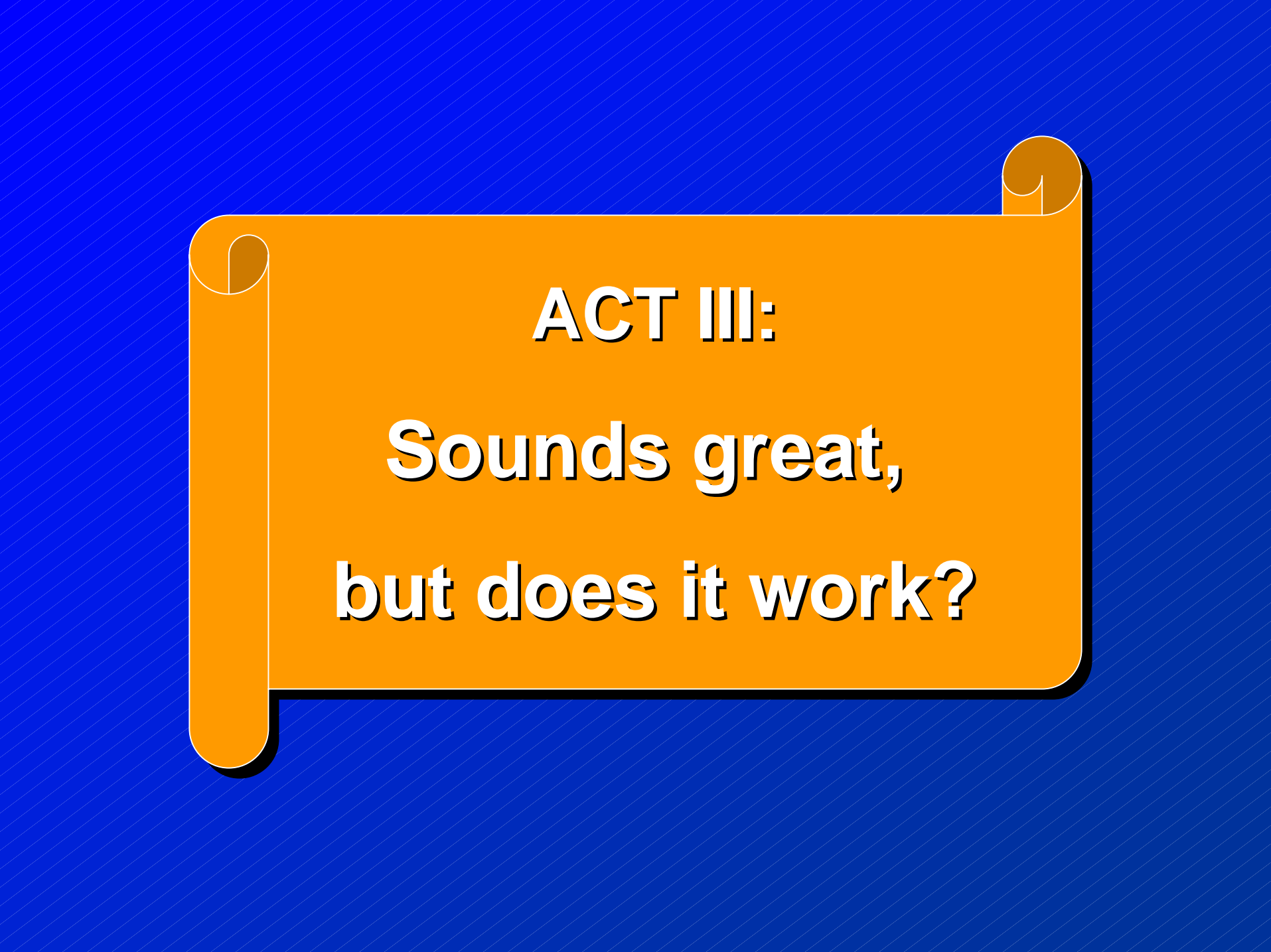


# Structure of WTP questionnaire



# Plotting the demand curve





**ACT III:**  
**Sounds great,**  
**but does it work?**



# Findings

- Reliability
- Theoretical validity
- Predictive validity

# Reliability

- Respondents can answer hypothetical questions
- Answers are internally consistent
- Even people without education give reliable responses

# Theoretical Validity

Do the findings conform with basic economic principles?

## **Motivation:**

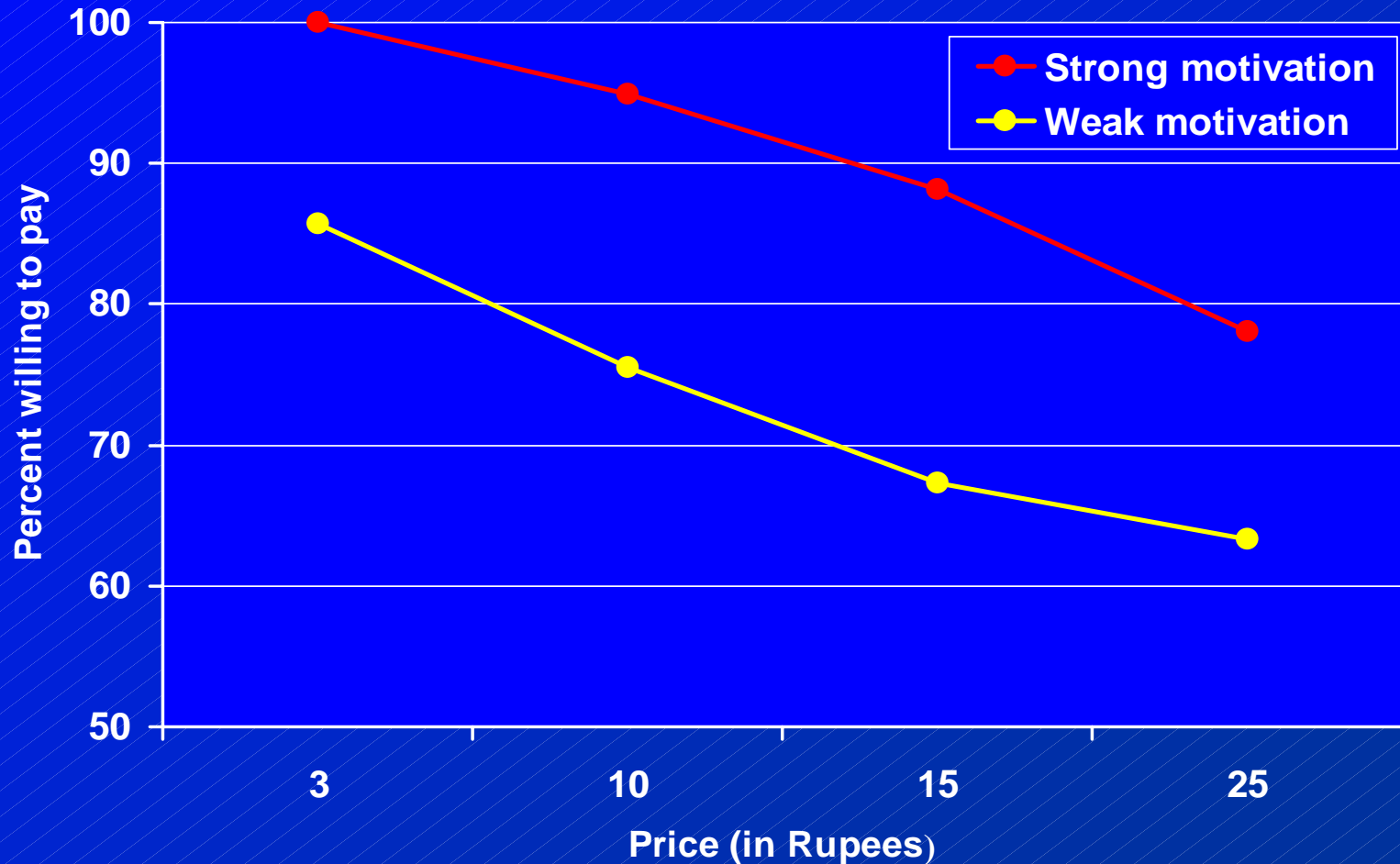
Highly motivated respondents should be more willing to pay

## **SES:**

Higher income respondents should be more willing to pay

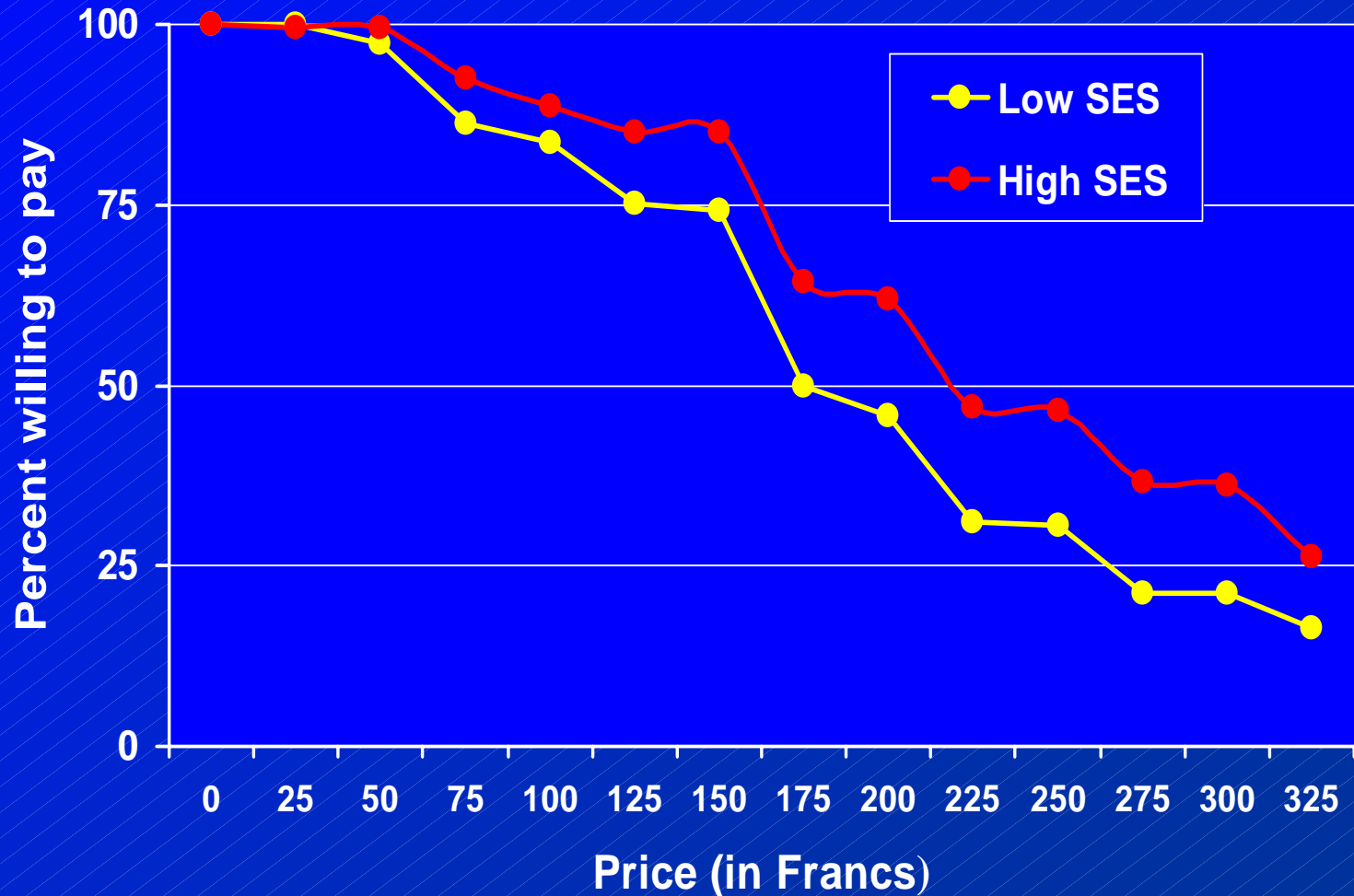
# Willingness to pay for Pills

## Pakistan: Potential Users



# Willingness to pay for Condoms

## Mali: Urban Men



# Predictive Validity

**Do the survey results predict  
future behavior?**

# Types of Validation Studies

## *1. Individual-level*

- *Theoretical evidence: We know WTP predicts when client validates own prediction*

## *2. Aggregate-level*

- *Program evidence: how accurate are predictions in the “noisy” program environment?*
- *Greater relevance to program managers*

# Egypt

## Individual Level Not Adjusted for Non-Economic Drop-out

- Said will return and did return: 77%
- Said will return and did not return: 23%
- Said will not return and did not return: 33%
- Said will not return and did return: 67%



# Egypt

## Individual Level Adjusted for Non-Economic Drop-out

- Said will return and did return: 96%
- Said will return and did not return: 4%
- Said will not return and did not return: 9%
- Said will not return and did return: 91%

# Program-Level Prediction

## Ecuador: Accuracy of Predictions

Post Increase Behavior:

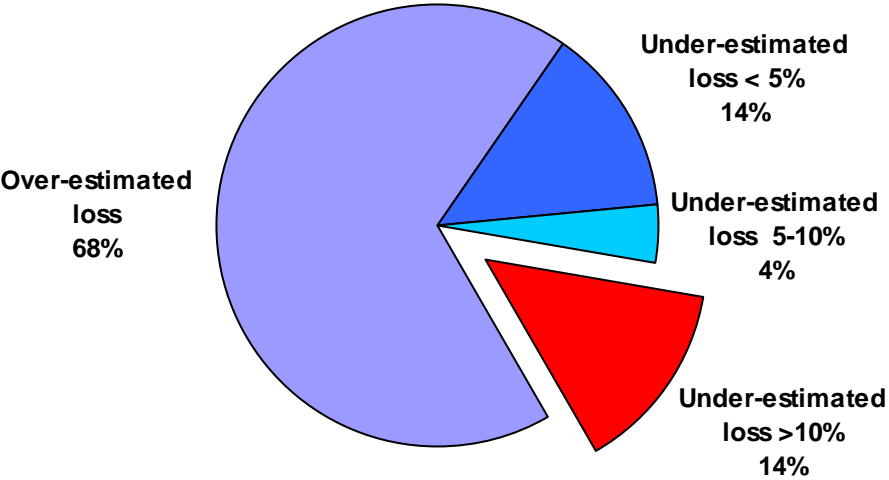
Within  $\pm 10\%$  of observed percent change:

**48%** of cases

Over-estimated client loss:

**68%** of cases

# WTP Helps Protect Program From Under-Estimating Client Loss



# Conclusions

1. The next time you must make a pricing decision, consider a WTP survey
2. Try to adjust for trends and non-economic drop-out
3. Monitor post-price increase utilization

A stylized orange scroll with a white outline and a drop shadow, set against a blue background with a fine white grid pattern. The scroll is unrolled, with the text 'THE END' centered on its surface. The scroll has rounded corners and a vertical strip on the left side that also has rounded ends.

**THE END**