What Drives B2B Customers to Pay Higher Prices to their Suppliers?

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Abstract

Customer's willingness to pay is a central issue in marketing because it allows the seller's pricing strategy to better align with what the market can bear and thus improve profit margins. However, the idiosyncratic characteristics are a few elements of the buying behavior of the B2B customer that the extant literature has missed out when trying to model the determinants of the buyer to pay a higher price to the supplier.

Mindful of this important gap in the pertinent literature, we develop a theoretical framework with the aim to produce a more insightful and holistic view of the precipitating circumstances that explain the customer's readiness to pay the supplier a higher price. We test this framework against data collected from 272 companies (27.2% response rate), using appropriate analysis techniques. Results show that specific endogenous (buyer related) and exogenous (market related) factors do really explain if the customer would be willing to pay the supplier a better price.

Key Words: Pricing; Willingness-to-pay; B2B;

Track: Pricing

Introduction

Throughout the marketing literature the issue of buyer's willing to pay is largely considered as the sacrifice that the buyer is willing to do to acquire a product. Thus, product characteristics condition the customer's willingness to pay more, provided the customer sees something 'unique' in a product that makes it superior to what competitors offer. This is generally reflected on the customer's perception of the value the supplier's product offers. Perceived value is then one of the most critical determinants of the customer's intention to purchase (Hsin Chang and Wang 2011, Ulaga and Chacour 2001). Perceived value (PV) is a multidimensional and highly subjective assessment of many factors that jointly deliver the positioning of the product (Ruiz et al. 2008). PV however, in addition to the benefits the customer sees in a product, also reflects the customer's perception of the monetary sacrifice (price) the customer will have to pay to acquire the product (Zeithaml, 1988, Patterson and Spreng, 1997). Following from the theory of equality, PV is considered to be fair when the perceived cost is equally considered just when compared against what competitors offer (Salem Khalifa 2004, Zeithaml 1988).

Pricing, thus, is a powerful tool for suppliers in their effort to leverage the value customers perceive, while generating the revenues and profits the supplier expects to gain (Garda 1991, Shipley and Jobber 2001). Hence, in setting the pricing strategy, the extant literature promotes the use of demand-based approaches over cost-driven, or, competition-driven. However, research in the past has mainly focused on the product characteristics and relative advantage, to examine and assess the customer's reaction to different prices a supplier may set (Dodds, Monroe, and Grewal, 1991). While clearly useful, this approach is somewhat myopic as it fails to take into consideration the relational context that emerges between the supplier and the buyer and the implications this context has for the seller's pricing strategy potential.

To tackle this, we are examining willingness to pay as a function of two key variables, perceived fairness (reflecting the extent to which the buyer acknowledges the price the supplier asks as just) and signaling behavior (drawing from Arrow's contract theory (1962) and capturing the buyer's readiness to credibly conveys some information about the needs of the organization, or the value the buyer sees in the relationship with the supplier), both of which we model drawing on organizational buying behavior and perceived value, namely 'buyer's dependence (to the supplier)', 'goal alignment (among the members of the buying center)', 'quality-based competition (the buyer's emphasis to compete on) its product quality', and '(the buyer's perception of) the suppliers' sales people customer orientation'.

The research comprised two phases, first the exploratory, qualitative phase, during which we selected some valuable ideas from key informants with personal interviews and, second, the quantitative main research through which we selected data from 271 managers of respective industrial companies. These data were analyzed using a series of descriptive analyses, reliability and validity analyses, and structural equation modeling using the AMOS statistical package. Finally, to assess the impact of the two key focal variables on the customer's willingness to pay a higher price we employed binary logistic regression analysis. We next present the main underlying literature supporting the conceptual framework before discussing the research design, the analysis of the data and the implications from this study.

Literature Review and Hypotheses

Perceived price fairness is a psychological factor that critically affects how a buyer will react to the price (Kahneman, Knetsch, and Thaler 1986). Drawing from equity theory, for an equitable exchange relationship to exist, the parties involved have to obtain equal ratios of gains for the investments, or the sacrifice, they make (Adams 1965, Martins 1995). Suppliers can build a reputation for price fairness in different ways. For example, through non-discriminatory pricing between buyers who have bought the same product in the same quantities (Martins and Monroe

1994). Over time and as this reputation strengthens it generates a halo effect that is present during price negotiations between the seller and the buyer and the stronger this effect is, the more likely it is for the buyer to accept a higher price from the seller.

Signaling behavior is a cognitive factor capturing the purposeful sharing of information between the agent and the principal regarding the needs and the wants of the former (Spence 2002). Buyers' signaling behavior helps a supplier to plan its own activities, thereby avoiding unpleasant and costly surprises. Additionally, this behavior suggests to a supplier that the buyer is concerned about and trusts enough the supplier to take the trouble to give advance notice of impending changes (Leuthesser 1997). Based on such information, the supplier can better plan both the operating efficiency and the customer service the buyer receives (Sum et al. 1995), which, in turn, allow the supplier to better manage the value his solution delivers for the buyer. Consequently, buyers who signal to their suppliers how their needs (and plans) change over time, are more likely to accept a higher price from their suppliers, in exchange for the solution a supplier will deliver to meet the buyer's changing needs and strategic objectives.

Table 1: Research Hypotheses	
H1:	The Buyer's Dependence will have an impact to the Supplier's Customer Oriented sales approach.
H2:	The Buyer's Dependence will have an impact upon the Information Sharing and Signalling Behaviour between the buyer and the seller.
H3:	Competition based on quality will have an impact upon the Supplier's Customer Oriented sales approach.
H4:	Competition based on quality will have an impact upon the Information Sharing and Signalling Behaviour between the buyer and the seller.
H5:	Goal alignment of the Buyer's DM Centre will have an impact upon the Supplier's Customer Oriented sales approach.
H6:	Goal alignment of the Buyer's DM Centre will have an impact upon the Information Sharing and Signalling Behaviour between the buyer and the seller.
H7:	Supplier's Customer Oriented sales approach will have an impact upon the Information Sharing and Signalling Behaviour between the buyer and the seller.
H8:	Supplier's Customer Oriented sales approach will have an impact upon the Buyer's Perceived Value, in terms of Reliability and Responsiveness.
H9:	Information Sharing and Signalling Behaviour between the buyer and the seller will have an impact upon the Buyer's Perceived Value, in terms of Reliability.
H10:	Information Sharing and Signalling Behaviour between the buyer and the seller will have an impact upon the Buyer's Perceived Value, in terms of Responsiveness.
H11	Supplier's Customer Oriented sales approach will have an impact upon the Buyer's Perceived Price Fairness and Price Effectiveness
H12	Buyer's Perceived Value, in terms of Reliability will have an impact upon the Buyer's Perceived Price Fairness and Price Effectiveness
H13	Buyer's Perceived Value, in terms of Responsiveness will have an impact upon the Buyer's Perceived Price Fairness and Price Effectiveness
H14	Buyer's Perceived Value, in terms of Responsiveness will have an impact upon Buyer's Perceived Value, in terms of Reliability.
H15	Information Sharing between the buyer and the seller will have an impact upon Signalling Behaviour between the buyer and the seller.
H16	Buyer's Perceived Price Effectiveness will have an impact upon Buyer's Perceived Price Fairness
H17	Buyer's Perceived Price Effectiveness and Buyer's Perceived Price Fairness will have an impact upon Buyer's Willingness-to-Pay-More.

The next question then begging for an answer is what are the precipitating circumstances that will oblige and compel the buyer in this kind of behaviours. PV is clearly pivotal here. PV is a multidimensional concept capturing the value the buyer receives from the product/service, but also,

in a wider sense from the relationship with a supplier (Abratt and Kelly 2002). In fact, it is this relational context and strategic alignment that enables the supplier to generate a product/service solution that will meet the buyer's needs and augment the value the buyer receives (McDonald, Millan and Rogers 1997). As a result, buyers perceiving that they really gain value from their relationship with a supplier are more willing to share information with this supplier. At the same time, because the supplier equally values the relationship with the buyer, the pricing practice will be more consistent and fair, helping thus the supplier to build the perception of a 'fair-pricer' in the eyes of the buyer.

What helps the seller to develop and augment the value of its offering for the buyer has been the subject of many studies and the literature reports a significant number of antecedents. In the context of this investigation, two parameters are particularly interesting. The first is the buyers approach to competition in its own industry (or 'supplier purchasing orientation' (Lindgreen, Revesz and Glynn 2009). Whilst many companies chose to compete on cost and price, others prefer to compete on the quality and superiority of their product. The latter, to be successful, need a network of suppliers who, in turn, can add to their competitive advantage, for example, through innovative process, or, product/service features. The former will rely more on suppliers who merely help them to bring costs down. Thus, companies who choose to compete on the quality of their product offering, are clearly more likely to see higher levels of PV, not by means of pushing costs and prices down, but rather, by augmenting the benefit(s) they receive from their suppliers, even if this was to translate to higher prices (McDonald et al. 1997). The second is reflected upon the buyer's perception of the degree of customer orientation characterizing the salespeople of the seller.

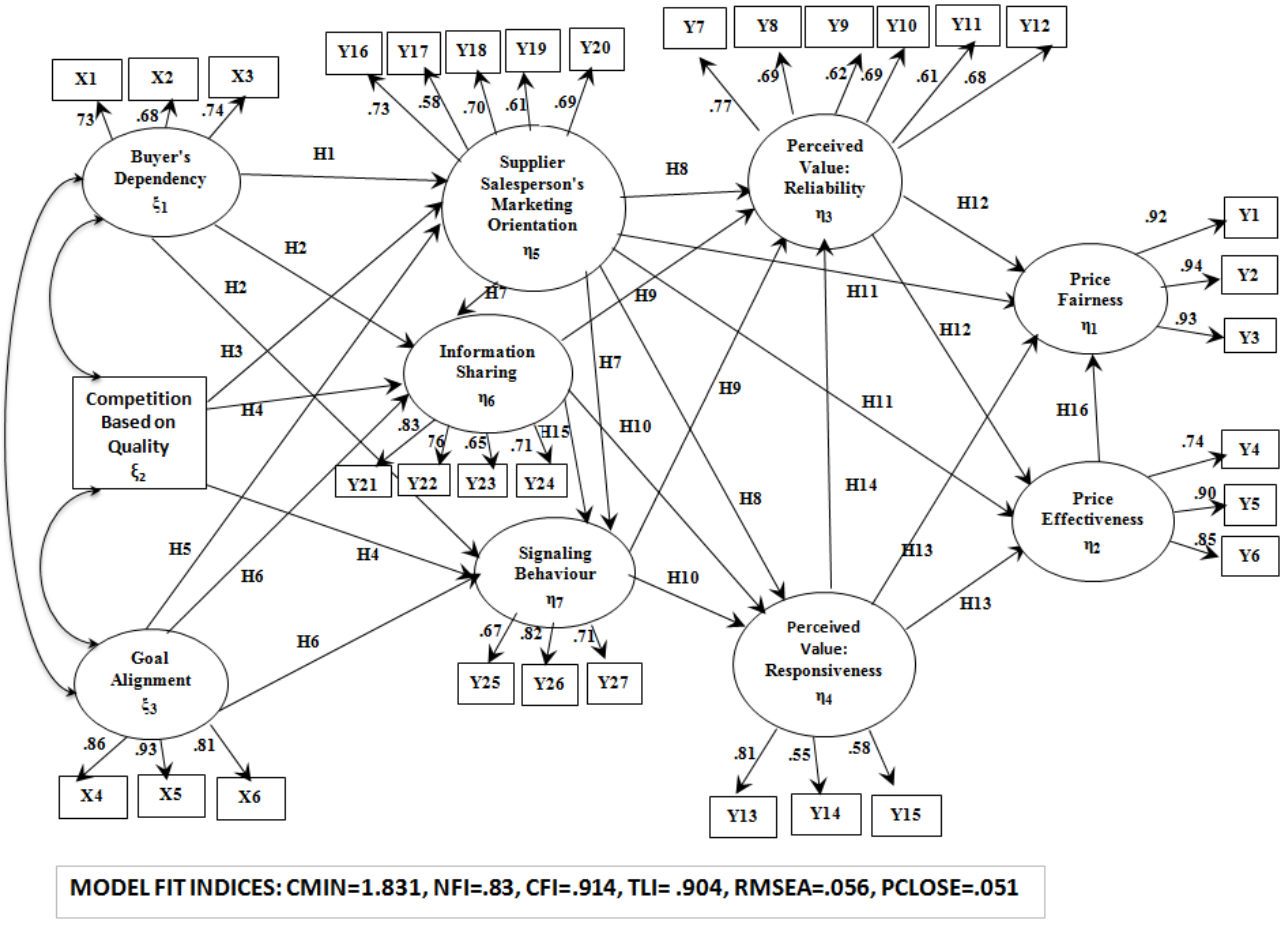
Salespeople may adopt and use different approaches to the selling task (Jobber and Lancaster, 2009). Whilst some are driven by their own (and their company's need to sell and meet revenue and volume objectives, other take a different approach and try to help customers in meeting their needs, while matching the company's offerings to the wants and expectations of the customer (Rackham and DeVincentis 1998). From the customer's perspective, the latter have a positive impact in delivering value for the buyer, as they work together with the customer to understand how the supplier can best match the value expectations of the buyer (Liu and Leach 2001).

However, not all buyers will equally appreciate this approach to the selling task and the salespeople' level of customer orientation. Again, the buyers' purchasing orientation and approach to gaining a competitive advantage is key. Buyers competing on price are less likely to be positive recipients of the selling behavior and approach such salespeople will have (McDonald et al. 1997). Two additional parameters are also pivotal here. One is the degree of the buyer's dependence to the supplier: The more dependent a buyer feels to the product/services the supplier offers, the more the buyer would be likely to sit down together with the supplier's selling team and explore in detail how the supplier can help the buyer to compete in its sector/industry (Heide and John, 1988). The other is the degree of goal alignment among the members of the buying center in the buying organization. The buying center is not necessarily homogeneous; usually it is comprised of managers and employees from different organizational functions, who come with different agendas, which are not necessarily completely aligned (Swift 1995; Johnston and Lewis 1996). The more divergent their views, the more disparity in the way they assess the supplier's salespeople and their effort to contribute in value for the buying organization. Thus, goal alignment among the members of the Buying Centre is another fundamental antecedent to the buyer's perception of the level of customer orientation characterizing the seller's selling team. Furthermore, a few researchers have examined the relationship between perceived value and price fairness (Oh, 2003). For example, when the buyer evaluates highly the supplier's offering, it will evaluate the offering price as justifiable. Thus, we consider that perceived value would have an impact upon price fairness.

As a round up, from the review of the extant literature, it appears that the degree of customer orientation on behalf of the supplier, together with information sharing and signaling behavior

among the transacting parties may impact the buyer's perceived value the in terms of reliability and responsiveness. Furthermore perceived value may influence perceived price effectiveness and (the supplier's) perceived fairness (by the buyer) regarded to have explanatory powers of whether and why the buyer would be willing to pay a higher price to the supplier. The amount of value the latter sees from doing business with a supplier, as well as, the degree of customer orientation the supplier sees in the behavior and practices of the supplier's selling team will condition the buyer's inclination to share information with the supplier, as well as, the buyer's perception of the supplier's fairness in setting a price strategy. Finally, the degree of the buyer's dependence to a specific supplier, the degree of goal alignment among the members of the buyer's buying center and the buyer's approach to purchasing as reflected by the buyer's approach to compete on price or product quality, will jointly explain the degree to which the buyer perceives the supplier's selling team to be (or not) customer oriented. Table 1 summarizes this in the form of specific research hypotheses that we examine empirically, together with the construct factor loadings, as produced by the SEM analysis.

Figure 1. Structural Equation Modeling of Willingness-to-Pay-More Interpreting Variables and Research Hypotheses



Methodology

In order to set the hypotheses of the study we delved into the wide stream of marketing literature pertaining to the business-to business literature and specifically, to the network theory, the marketing orientation and the pricing policy theories. Furthermore, we made qualitative research through personal interviews with 15 key informants that are high-ranking managers of both selling and purchasing departments, which volunteer to participate. This phase yielded a few ideas upon the subject matter and helped in identification of the variables that we should include in our research

model, together with the set of the research hypotheses. In order to test the latter, we formulated the quantitative research instrument, with measures that based on valid scales from the marketing literature and addressed it to the purchasing department managers of industrial companies. The research sample comprised 1000 business-to-business Greek companies that were randomly selected from the business-to-business companies' phone directory. Our sampling involved combined collection method, that is, for companies of close distance proximity, we preferred to collect the data via personal interviews. Simultaneously, for more geographically distant industrial companies, we uploaded the questionnaire on the WWW academic page and prompted the sample participants via email to click on the specific link and answer the questionnaire online. After two reminders urging participants to fill in the research instrument, totally 271 companies responded, yielding a 27.1% response rate, which compares favorably with similar response rates obtained in similar large-scale surveys from top executives which range from 5.9% to 22% (Gatignon and Robertson, 1989).

As mentioned above, the twofold data collection procedure resulted in two response subsamples. Specifically, 82 executives responded electronically, whereas, 189 executives consent to fill in the research instrument via personal interview, accounting to 30.3% and 69.7% of the total research sample, respectively. T-test analysis showed that there was no difference in the variable means between the two subsamples indicating that the whole research sample was homogenous.

The selected data were, then, subjected to rigorous advanced statistical analysis, in order to test reliability of the research measures and validity of the causal model. These research hypotheses were tested using advanced statistical analyses and causal modeling.

Reliability and Validity of Research Constructs

All, but two variables, namely, the 'quality-based competition' and the 'Willingness-to-pay-More', were multi-item and operationalized using seven-point Likert scales and were adopted from the marketing literature existing scales. The single-item variable 'quality-based competition', scored a 5.45 mean (st. dev.1.2), on a seven-point Likert scale and the normality tests assessed that normality would not be a problem for its participation in the research analysis. Finally, 'Willingness-to-pay-More' was operationalized as a binary variable.

In order to test the strength of the relationships among the latent variables as specified by the paths of our conceptual framework, we used both structural equation modeling and logistic regression analysis. Thus, in order to test robustness of hypotheses H1 to H16, involving continuous measures, we performed structural equation modeling using the AMOS 24 package (Table 1). H17, involving the binary variable of Willingness-to-Pay-More was tested using the logistic regression analysis (Table 3).

Specifically, the measurement model and the causal model were estimated simultaneously, that is, the full model evaluated: (1) the extent to which the observed variables were indicators of the hypothesized underlying constructs, and (2) the strength of the relationships among the latent variables as specified by the paths. Maximum likelihood was used as the estimation method. The measures of overall goodness-of-fit for the entire model are very good. The CMIN statistic, representing the chi-square/degrees of freedom, is 1.831 and demonstrates a very good fit (Carmines and Mclver 1981). Furthermore, the overall goodness-of-fit indices for the structural equation model exceeded the critical levels cited by Bearden, Sharma and Teel (1982), indicating that the overall fit of the model to the data is quite strong (RMSEA = .056, $p<0.051$, NFI= 0.83, CFI= .92. TLI=0.904).

Table 2 presents the standardised total effects, together with the two-tail statistical significance (bootstrapping confidence), which depicts the convergent validity among the model constructs and verifies the explanatory powers of moderating variables upon the dependent ones.

Findings and Discussion

Table 2

STANDARDIZED TOTAL EFFECTS WITH TWO TAIL SINGIFICANCE - BOOTSTRAP CONFIDENCE

	DEPENTENCY	GOAL ALIGNMENT	COMPETITION BASED ON QUALITY	SUPPLIER SALESPERSON 'S MARKETING ORIENTATION	INFORMATION SHARING	SIGNALING BEHAVIOUR	PERCEIVED VALUE: RESPONSIVENESS	PERCEIVED VALUE: RELIABILITY	PRICE EFFECTIVENESS
SUPPLIER SALESPERSON 'S MARKETING ORIENTATION	-0.204*	0.146*	0.055						
INFORMATION SHARING	0.001	0.204**	0.176*	0.292**					
SIGNALING BEHAVIOUR	-0.133	0.126**	0.207*	0.291**	0.455***				
PERCEIVED VALUE: RESPONSIVENESS	-0.076	0.100	0.096*	0.337**	0.297**	0.252*			
PERCEIVED VALUE: RELIABILITY	-0.069	0.097	0.101*	0.291**	0.319**	0.290*	0.828**		
PRICE EFFECTIVENESS	-0.036	0.022	0.005	0.177**	-0.023	-0.013	-0.163	0.351	
PRICE FAIRNESS	0.004	0.006	0.013	-0.024	0.056	0.044	0.233**	-0.178	-0.642**

*=p<0.5, **=p<0.01, ***=p<0.001

As a next step, in order to test H17, we performed binary logistic regression analysis, regressing Perceived Price Effectiveness and Perceived Price Fairness, considered as the independent variables, against Willingness to Pay More, as shown on Table 3. The binary logistic regression results showed that the model was significant and the beta coefficients had explanatory powers upon the research dependent, thus indicating that H17 was robust. The details of the analysis that are shown on Table 3, indicate that the binary logistic regression successfully classified 13.4% of unwillingness to pay more, and 91.5% of willingness to pay more. The overall explanatory powers of the binary logistic estimators, namely Perceived Price Effectiveness and Perceived Price Fairness, seem to be 70.1%, as they correctly classified 171 cases of the research sample.

Binary Logistic Regression Coefficients, Significance levels and Classification results of Willingness-to-Pay-More

Predictor Variables	Coefficients	S.E.	Wald
Perceived Price Effectiveness	-.037*	.01	4.9
Perceived Price Fairness	.11***	.019	35.4

-2 Log likelihood	254.997*
Cox & Snell R Square	0.289
Nagelkerke R Square	0.385
Chi-Square	83.259***

Discriminant Analysis Classification F	Actual Group	No. of Cases Correctly Classified	Predicted Group Membership: Group 1 Unwillingness to Pay More n=67	Predicted Group Membership: Group 2 Willingness to Pay More n=177
	Group 1 Unwilling to Pay More	9	13.4%	
	Group 2 (Willing to Pay More)	162		91.5%
	Percent of Grouped Cases Correctly Classified			70.1%

***p<.001

On the whole, our research hypotheses were supported and proved that our conceptual model was robust. Supplier salesperson's marketing orientation, together with information sharing and signaling behavior appear to affect buyer's perceived value accrued from the relationship, in terms of reliability and responsiveness.

Specifically, as evident from our research results, when customers are promptly informing their sellers about whatever changes they consider important, such as changes in their purchasing criteria, purchasing volumes, or other purchasing modifications, it appears they are ready to reimburse they providers for this flexibility. There are may instances that the providers listen to their buyers' signaling and respond with adjustments of their product offerings, or, even, their production procedures, delivery terms, credit terms, selling volumes, etc. It appears that the buyers appreciate the extra cost that sellers' promptness bare and are willing to compensate by paying higher for the offering which is closer to their contemporary needs. Indeed, McGowan (1998) argued that effective information sharing enhances effective supply chain practice, such as supply chain planning, production and delivery practices. As a result of free flown information, supply chain transparency may be enhanced and forecast errors may be reduced. In this sense, signaling behavior is reflected upon the information quality and the type of information shared that are important in order to achieve the necessary transformations of product offerings in the market, thus justifying for willingness to pay a higher price. However, perceived value seem to affect only perceived price fairness, whereas it showed no effect upon perceived price effectiveness. The implication may be that companies that are very price sensitive (as price effectiveness reflects sensitivity to price reductions and promotions) may not appreciate the value accrued by the long-term relationship building investments among interacting parties.

Furthermore, the binary logistic regression indicated that perceived price effectiveness and perceived price fairness were powerful explanatory variables of buyers' willingness-to-pay-more. Thus, our findings place evident upon our hypothesis that when buyers perceive that an increase in price is fair, and at the same time, that the seller has made the best price offer in terms of reductions, they would be willing to pay for.

The implications derived from our research findings, which correctly classified 70.1% of the respondents that cited willingness to pay more, are that when a buyer regards price offerings, in terms of price reductions and other price promotions as effective and, at the same time, it appreciates the seller's price as fair, it would more likely be willing to pay more for the customized offerings. Finally, another implication might be that other characteristics, such as quality-based competition, or seller's customer orientation behavior, and perceived value, are exogenous to the company and may be highly influenced, as susceptible to the selling company's control. On the other hand, other characteristics, as goal alignment among the Buying Center members, or buyer dependence upon the supplier, are endogenous to the company, and, rather uncontrollable by the seller, and as such, they would more likely influence the suppliers' behavior, than vise-versa. For example, in instances that the buyer is less dependent upon the supplier, or goal alignment (low consensus about goal priorities) among the Buying Center members is low, the selling companies should be more skeptical, as their customized offerings and enhanced product value, that entails higher production and marketing costs for the sellers, may not suffice to lead to higher profit margins and surplus for their organizations, per se.

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