

Gyau, Amos; Somogyi, Simon A.

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Exploring the Multi-Dimensional Nature of Price Satisfaction in Business to Business Suppliers' Relationship Performance

Amos Gyau · Simon A. Somogyi

Abstract: Price satisfaction is an important factor which influences buyer seller relationships. The literature on industrial buyer seller relationships has provided only limited discussion of the concept of price satisfaction especially from the supplier's perspective. The aim of this paper is to provide a detailed analysis of the concept of price satisfaction from a supplier's point of view. We argue that like in consumer markets, industrial suppliers' satisfaction related to price is a higher order construct with many dimensions and that price satisfaction influences the industrial suppliers' relationship performance.

Keywords: Price Satisfaction · Relationship Performance · B2B · Suppliers

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A. Gyau
World Agroforestry Centre (ICRAF-CGIAR)
West and Central Africa Regional Office
P.O. box 16317
Yaounde, Cameroon
e-mail: a.gyau@cgiar.org
S. A. Somogyi
University of Queensland
School of Agriculture and Food Sciences
Queensland, Australia
e-mail: s.somogyi@uq.edu.au

Introduction

In recent years, there has been an increasing realisation of the need for industrial buyers of goods and services to develop and maintain long-term relationships with their suppliers. This is especially true against the background that long-term relationships can have a number of beneficial effects such as cost reduction and improved efficiency (Gyau & Spiller, 2008; Kalwani & Narayandas, 1995). The benefits of long term relationships may also be a consequence of reduced transaction cost, improvement in the level of information flow and product quality and performance (Batt & Wilson, 2000). Establishing and improving buyer-seller relationships is therefore critical for industrial business partners in seeking out long-term sustainability in highly competitive industries (Weber et al. 1991). Therefore, in order to be successful, channel partners need to develop, maintain and seek improvements on the dynamics of a relationship within the supply chain.

One important factor that has been considered in many exchange relationships is price, which is the financial value given out in exchange for a product. The literature on consumer studies regarding price has argued that customers hold an internal reference price which serves as a standard against which newly encoded prices are compared (Diller, 2000; Matzler, et al. 2006). The reference price therefore provides a base for customers to determine their level of satisfaction with the exchange; the so called "Price satisfaction", which has been explored in detail by authors like Diller (2000) and Matzler et al. (2006). These authors showed that price satisfaction is a higher order construct with many dimensions, however, they viewed this concept from consumer markets.

Ramsay and Wagner (2009) indicated that most of the researchers in relationship marketing have focused on the interests of firms as suppliers and the behaviour of customers indicating limited emphasis on the needs, wants and preferences of suppliers. With particular reference to the concept of price satisfaction, the literature has mainly focused on consumer markets to the extent that the perspectives of suppliers have not been fully explored. The section of the literature which has touched on the concept of price satisfaction from supplier's perspective has considered it as uni-dimensional construct (e.g. Gyau & Spiller, 2007). Therefore, two main conclusions may be drawn: first that the multi dimensional nature of supplier's price satisfaction has not been explored leading to an insufficient understanding of the concept in business to business relationships, and second, that further light needs to be thrown on the impact of price satisfaction on firms' relationship performance. This concept is particularly important against the background that, from suppliers' points of view, all activities of the marketing mix involve the outlay of resources except price, which involves the inflow of resources (Martin-Consuegra & Esteban, 2007). Furthermore, suppliers create value in B2B relationship and therefore understanding suppliers' needs and wants is important to buyers and the eventual success of the relationship (Ramsay & Wagner, 2009; Walter et al. 2001). In view of this, a detailed understanding of the concept of inflow of resources, in this case financial resources, and the effect of these resources on suppliers' behaviours, becomes critical in industrial relationships.

The aim of this paper is to explore the multi-dimensional nature of the concept of price satisfaction from an industrial supplier's point of view and determine its influence on the relationship performance of the supplier. Other studies have addressed a similar area of research from the buyers' perspective by focusing on the concerns of supplier selection and interaction. These studies have shown that price of a product maintains a small role when deciding which suppliers to engage (Ulaga & Eggert, 2006) and that financial incentives (price offered for a product) is a supplier based variable in relational processes between the two actors (Tuli et al. 2007). It can therefore be expected that by switching the emphasis from buyers' or customers' needs and wishes to those of the suppliers, it may become possible to reduce conflict in buyer-supplier interactions and improve joint trading performance (Ramsay and Wagner, 2009).

The remaining sections of the paper are organised as follows: First, we provide a literature review concerning the concept of price satisfaction and develop a set of propositions for supplier's price satisfaction. Next, we discuss how price satisfaction influences supplier's relationship performance. The paper concludes with a discussion of the contribution of the article to the marketing literature and its implications for further research.

Model development and theoretical propositions

In this section, we present our model of price satisfaction from the B2B supplier's perspective. Our objective is to show how price satisfaction dimensions, as discussed from consumer markets, are relevant and can be applied to the case of industrial suppliers. Subsequently, a higher order construct of supplier's price satisfaction is developed and linked to the firm's overall relationship performance.

Price satisfaction

The marketing concept states that to achieve success, an organisation should identify and satisfy consumer needs and wants more effectively than its competitors (Day, 1994; Drucker 1954; McCarthy, 1960). Furthermore, the extant literature in marketing holds that consumer satisfaction is the main directive of marketing (Anderson et al. 1994). As the notion of consumer satisfaction is also connected to the concept of relationship marketing and the creation of long-term relationships (which results in customer satisfaction), incorporating satisfaction relating to price, and its various dimensions, into B2B relationships is of importance to scholars. Further to the notion of satisfaction is that price maintains a central role in the purchasing decision making process and post purchasing behaviour, which results in consumer satisfaction (Matzler et al. 2006). The concept of consumer satisfaction is further linked to price issues as more than half of customers switch to competitors' products because of perceptions of price (Keaveny, 1995). While the notion of price is included in the scale items of many questionnaires (see Fornell et al. 1996; Gyau and Spiller, 2007;

Sternquist et al. 2004; Voss et al. 1998) little attention is paid to the antecedents of price satisfaction and the nature of the construct items particularly in a B2B context. Furthermore, the literature debates that price satisfaction is a higher order construct linked to a number of attributes related to price. Campbell (1999) suggests that price satisfaction is a consequence of price fairness and price perception, while Keaveny (1995) and Varki & Colgate (2001) discuss that price perception has an effect on satisfaction.

Dimensions of supplier's price satisfaction

This section of the paper discusses the dimensions of price satisfaction in the context of business to business supplier's relationship management. The authors based the discussion on the dimensions described in consumer markets and explain how such dimensions may be relevant from the industrial suppliers' perspectives.

As information access and increased interaction by consumers is a modern day norm (Urban, 2003), consumers are increasingly becoming more demanding on the honesty and completeness of information they receive on price (Matzler et al. 2006). Some benefits of satisfying consumers by providing honest and frank information regarding prices are increased trust and satisfaction with the company (Urban, 2003). It therefore stands to reason that price transparency is a dimension of price satisfaction. In relation to price transparency in a B2B context and from the supplier's perspective, information access and completeness of information is an important concern of the supplier. The concept of completeness and openness of price determinacy is especially important to industrial suppliers of some commodities, especially agricultural products, who are often concerned about the price formula that is used by their buyers, with most price formulae taking factors such as quality, quantity supplied, geographical location, length of relationship, nature of contracts etc. into consideration (Schroeder et al. 1998). Thus, two or more suppliers of the same commodities may receive different prices under some circumstances. This therefore makes it imperative for buyers to keep a high level of transparency concerning how prices are determined and paid so that some suppliers do not feel discriminated against. Suppliers are therefore more likely to be satisfied if they are provided with information on how buyers determine the price that will be paid for their products. Based on the above discussion, we can propose that:

P1: Higher levels of price transparency from buyers are more likely to result in increased levels of suppliers' price satisfaction.

Related to the discussion above is the dimension of price-quality ratio. Monroe (1990) has argued that from consumers' perspectives, value represents a tradeoff between the benefits they perceive in a product relative to the price they pay for it. The notion of the tradeoff between benefits and cost is also pertinent to customer value. If perceived quality exceeds perceived costs, customer value is high and vice versa (Matzler et al. 2006). Therefore, a favourable price-quality ratio will increase customer satisfaction (Lam et al. 2004; Matzler et al. 2006). From a B2B supplier's perspective, the price satisfaction the partner receives is a tradeoff between the benefits and the

cost of the product. This trade off is often operationalised as a price-quality trade-off (Monroe, 1990, Varki & Colgate, 2001). The concept of "trade off" is of particularly important to B2B suppliers in commodity markets where grading of produce based on quality is a common practice. In these markets, suppliers must be satisfied that the prices that they receive from their buyer reflect the quality of the product (Schroeder et al. 1998). Furthermore, linked to the concept of price-quality ratio, is the notion of value based marketing or pricing based on averages (Schroeder et al. 1998). This method of pricing is prevalent in agricultural markets (such as the beef industry) whereby a large volume of product is sold on an average price and not categorised for quality. This method of pricing is an antithesis of the price-quality ratio concept, and benefits the buyer who obtains a large volume of product in one transaction thereby lowering search and transaction costs for the buyer (Schroeder et al. 1998). This pricing method is fair and just if the large volume of product is provided by one supplier. However, a large lot of products can contain the products of numerous suppliers and it would be unfair to the producers of high quality product to subsidise the products of poor quality products if combined in one transaction.

It can be surmised that suppliers would wish to receive a price for their product that is indicative of their products and thus, the price-quality ratio dimension as discussed from the consumers' perspective is also applicable to the supplier in a B2B context. We can therefore postulate that:

P2: A positive relationship between supplier's price satisfaction payment based on the tradeoff between price and quality.

Matzler et al. (2006) postulate that in a B2C context, customers make price comparisons during the purchasing decision making processes. The price comparison refers to relative prices and is affirmed by a body of literature which identifies the effects of comparative price claims on consumer perceptions of price (see Compeau & Grewal, 1994; Grewal et al. 1996). Therefore, the relative price of a product directly influences consumer satisfaction and constitutes a dimension of price satisfaction.

From the business supplier's point of view, effects of relative prices may also influence the supplier's overall satisfaction and performance. This is a result of the fact that suppliers often compare prices which are offered by various buyers. Such comparison may lead to a reduced level of satisfaction if the suppliers feel they could have obtained a better price from other buyers even when the absolute price that they receive is high. The opposite also holds for the supplier when the price comparison is favourable.

Not only do suppliers compare prices with other buyers but also with the highest prices they have received from the same buyer. Such a comparison will also enable suppliers to determine whether the price is also favourable and fair. Price comparison is also linked to the notion of fairness of the price and is exacerbated in asymmetrical power relationships whereby the price set by the buyer is more favourable to the buyer or seller due to the influence of market forces (Dwyer et al. 1987). Therefore the power asymmetry in the relationship will dictate the level of price fairness experienced by the two actors. Diller (1997, 2000) postulates that consumers gain satisfaction from a price of a product if they believe that the offered price is favourable and fair. Thus,

P3: Relative prices is likely to influence the suppliers' overall price satisfaction

P4: Price fairness is likely to influence the suppliers' overall price satisfaction

Another dimension of price that can be considered from suppliers' perspectives and which may influence the overall price satisfaction is price reliability. The notion of price reliability further relates to price confidence and is linked to price expectations and whether they are met or not (Diller, 1997; Matzler et al. 2006). Price reliability also relates to the idea that prices do not change unexpectedly and that the suppliers are informed in a timely manner. If price reliability is high then trust is built and a long-term relationship is engendered; a tenet of relationship marketing. Reliable prices would enable suppliers to plan their activities and reduce the risk of financial loss when the prices they receive are relatively stable (Dwyer et al. 1987; Somogyi & Gyau, 2009).

This is especially the case in many commodity markets where price hedging is a common practice. In this case, many buyers attempt to provide more reliable prices to their suppliers by hedging their prices or allowing them to trade in the future markets (Miller, 1980). Price reliability is also related to reference prices which are based on the past price of the same product at different occasions (Winer, 1986, Mayhew & Winer, 1992,). Therefore reference prices also affect price fairness and will dictate whether the price is fair and acceptable. This implies that:

P5: Reliability of the prices received by the supplier is likely to have a positive influence on their overall price satisfaction

The price satisfaction dimensions as explained above are further described in Table 1.

Price satisfaction and relationship performance

The role of price as an attribute of performance has been examined in several satisfaction studies (Varki & Colgate, 2001). These studies indicated that price perceptions have influence on firm's performance (e.g. Fornel et al. 1996, Voss et al. 1998).

O'Toole and Donaldson (2000) stated that business relationship performance can be categorized into financial and non-financial performance. They conceptualized that financial performance closely relates to economic rewards such as return on

Price satisfaction dimensions	Description
Price Reliability	Price do not change unexpectedly and suppliers are informed timely (Somogyi & Gyau, 2009).
Relative Price	Price of the offer compared to that of competitors' offers (Matzler et al. 2007).
Price Quality	the price receive from their buyer reflecting the quality of the product (Zeithaml 1988).
Price Fairness	consumers gain satisfaction from a price of a product if they believe that the offered price is favourable and fair (Campbell 1999; Diller 2000).
Price Transparency	clear, comprehensive, current and effortless overview about a companies quoted prices (Matzler et al. 2007).

Table 1: Description of Price Satisfaction Dimensions

investment, cost sharing and long term profitability in making business with exchange partner while non-financial performance is the outcome of having mutual interest, trust and satisfaction in relationships. Bolton and Lemon (1999) in studying price satisfaction in entertainment and the mobile phone industries observed that various aspects of price satisfaction such as deviation from normative payment expectations and perception of price fairness has a significant effect on satisfaction. From a supplier's case, this should be relevant since suppliers as business people also expect to enjoy satisfaction with the price they receive for their products. In support of this argument, Gyau and Spiller (2007) in studying the relationship between fresh fruit and vegetable exporters and their buyers observed a positive relationship between price satisfaction and relationship quality conceptualized to include satisfaction and trust. By juxtapositioning the argument from the consumer studies to the B2B supplier's case, we can propose that:

P6: Suppliers' satisfaction with price will have a significant influence on their non-financial relationship performance.

The notion of B2B price satisfaction is particularly important concept as B2B actors' satisfaction, relating to the price they pay (or receive) for products they produce (or purchase), will potentially differ. In a B2B context, channel members are highly satisfied with the financial rewards that come from the relationship (such as price, or sales) and non-financial rewards which relate to psychosocial gratification (Geyskens et al. 1999). Of critical importance to a firm is financial performance and is related to economic rewards as put forward by Geyskens et al. (1999) which constitute short-term outcomes in the buyer seller relationship. This includes factors such as profit,

cost and sales (Beugelsdijk et al. 2006; Gyau & Spiller, 2008; O'Toole & Donaldson, 2002; Ramsay, 2005).

In line with findings from O'Toole and Donaldson (2000) and Du and Wu (2008) we propose that:

P7: By creating supplier's price satisfaction we may improve financial performance

The discussion above has been put in a conceptual as shown in figure 1.

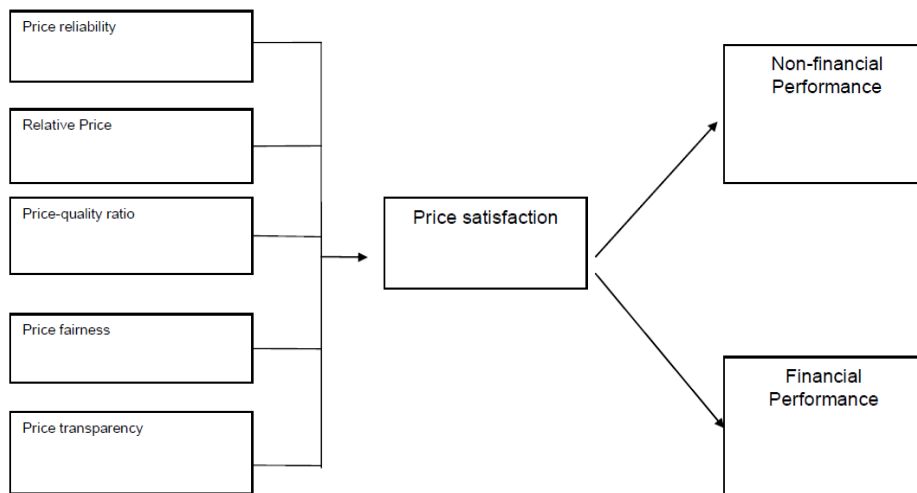


Fig. 1: Conceptual Model of Price Satisfaction and Supplier's Relationship Performance

Discussions and direction for future research

The aforementioned discussion has shown that like in consumer markets, supplier's price satisfaction in a B2B context can be considered a higher order construct with many dimensions. We further argued that price satisfaction may also influence a firm's relationship performance which is also manifested in the financial and non-financial rewards that a B2B partner obtains as shown in Figure 2. The paper also argues that in B2C relationships, price satisfaction is linked to consumer satisfaction and is a result of the price establishment by the supplier, whereas in a B2B context, price is invariably established by the buyer as evident in contractual agreements, spot market transactions and exacerbated by market conditions (potentially creating relationship power asymmetry,) which affects the dimensions of price satisfaction.

Therefore this paper's contribution to the literature is the notion that the theory of price satisfaction in B2C relationships is also applicable in many respects to the industrial supplier's satisfaction in relation to the price they receive for their products. In a B2B context, price is invariably set by the buyer and subject to market conditions, such as production over/ under supply. Price is also influenced by the nature of the

market structure, which can result in power asymmetries whereby an increase in power asymmetry decreases the level of non-financial (psychosocial rewards).

This study creates a number of implications for managers of both buyer and supplier firms. For example, if a buyer offers prices to supplier that are stable (reliable) and fair relative to other prices they will be satisfied, and in doing so, reduce search and transaction cost associated with finding replacement suppliers. Furthermore, if they offer prices that are an objective reflection of the quality of their products then they will be satisfied with their suppliers. This situation is common and relevant in agricultural markets where over production and the inherent characteristics of the produce often result in power asymmetry which normally favours the buyer.

For example, in the Australian wine industry an overproduction of grapes is creating a power asymmetry favouring grape purchasers (winemakers) and is resulting in decreased grape prices for suppliers and other conflicting behaviours by buyers such as contract cancellation and misbehaviour (Somogyi et al. 2010). The cause of the grape oversupply is also a result of market changes which occur further up the supply chain such as retailer consolidation and changing consumer behaviour (Somogyi et al. 2010) and as such is not directly related to the buyer (winemaker) behaviour. In this circumstance, pressures from up the supply chain are leading to buyers being unable to provide prices that, relative to past prices, are fair, and may need to provide price determination measures that are transparent thereby demonstrating to suppliers that the price they are offering is relative to other prices currently offered in the industry and is therefore fair. This would allow buyers to maintain relationships with supplier and avoid search and transaction costs associated with obtaining replacement suppliers.

The paper contributes to a new field of marketing which is referred to as organisational supplying behaviour (OSB) (Ramsay & Wagner, 2009). Much in the same way as the concept of consumer's price satisfaction has improved the understanding of buyer behaviour in marketing, so work on supplier's price satisfaction is reasonably expected to improve our understanding of supplier's behaviour. Whereas much of the literature has concentrated on consumer and organizational buying behaviours by focusing on understanding customers' decision making processes, this contribution focuses on the mirror-image, which is supplier focused and therefore enhances the decision making process of the supplier.

By empirically testing the theoretical propositions shown above, this contribution is expected to interest buyers by showing how firms can enhance their supplier's value in order to be considered as a customer of choice by their suppliers.

However, our analysis is limited as the above formulations are purely based on literature argument for the case of B2B suppliers. Future research should therefore develop a measurement scale to test the conceptual framework shown in Figure 1 in order to understand the price satisfaction dimensions for suppliers in the B2B context. The validity of the dimensions can then be tested by collecting empirical evidence from industrial suppliers concerning their attitudinal response to these variables, and analysed through confirmatory factor analysis. The relationships between the variables can be modelled via techniques such as structural equation modelling (SEM).

Furthermore, a dyadic perspective of price satisfaction could also be examined whereby the perception of both actors on the dimension of price satisfaction could be

observed and modelled. Finally, it will be interesting to also determine the cause and effect relationship between the financial and the non-financial performance measures through empirical studies.

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